

April 18, 2017

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 4, 3rd Engrossment (Omnibus Tax Bill), Article 1 Sec. 2, 18, 19

	Fund Impact			
	F.Y. 2018	F.Y. 2019	F.Y. 2020	F.Y. 2021
			(000's)	
Beginning Farmer Credit	(\$2,600)	(\$6,400)	(\$8,000)	(\$8,900)
Beginning Farmer Management Credit	<u>(\$100)</u>	<u>(\$400)</u>	<u>(\$700)</u>	<u>(\$900)</u>
General Fund Total	(\$2,700)	(\$6,800)	(\$8,700)	(\$9,800)

Effective beginning tax year 2017.

EXPLANATION OF THE BILL

The proposal creates two new income tax credits. The credits may be claimed only after approval and certification by the Rural Finance Authority.

The beginning farmer incentive credit is a tax credit for owners of agricultural assets. Such assets may be land, livestock, facilities, or machinery located in Minnesota. The assets must be sold or rented to a beginning farmer who is not a family member of the asset owner, as defined in the Internal Revenue Code. Seven eligibility requirements are listed for beginning farmers. The credit equals 5% of the sale price of the asset, 10% of the gross rental income in each of the first three years of a rental agreement, or 15% of the cash equivalent of the gross rental income of the first three years of a share-rent agreement. If the amount of the credit exceeds tax liability, the excess may be carried forward 15 years. Equipment dealers do not qualify for the credit.

The beginning farmer management credit is equal to 100% of the cost of participating in a financial management program approved by the Minnesota Rural Finance Authority. The credit can be taken for three years. If the amount of the credit exceeds tax liability, the excess may be carried forward three years.

REVENUE ANALYSIS DETAIL

- The Minnesota Department of Agriculture estimates that 370 farmers will participate in the program each year.
- It was assumed that half of the beginning farmers will purchase assets. An average farm sale price of \$640,000 is assumed for beginning farmers, with the asset owner entitled to a credit of 5% of the sales price. Livestock operations are assumed to be included in farm sales.
- It was assumed that half of the beginning farmers will rent assets. A quarter section cash rental gross rent of \$35,200 is assumed. Share-rent agreements are assumed to be included. The rental credit equals 10% of first three years' gross rental or 15% of the first three years' gross share-rental.

REVENUE ANALYSIS DETAIL (Cont.)

- The average management credit is estimated at \$700, for a total of \$259,000 in the first year. Participants are assumed to participate all three years they are in the program.
- Because the credit is nonrefundable, it was assumed that asset sellers and renters would carry over 20% of the credit annually.
- A growth rate of 5% was used, including price increases and increased participation.
- The estimate for tax year 2017 was reduced to reflect mid-year implementation.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: About 370 beginning farmers will be affected in tax year 2017.

Source: Minnesota Department of Revenue
Tax Research Division
[www.revenue.state.mn.us/research_stats/Pages/
Revenue-Analyses.aspx](http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx)

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