MINNESOTA · REVENUE

CORPORATE FRANCHISE TAX
INDIVIDUAL INCOME TAX
Tax Credit for Dairy Farms

February 26, 2004

	Yes	**No**
Separate Official Fiscal Note Requested		
Fiscal Impact		
DOR Administrative Costs/Savings		

Department of Revenue
Analysis of H.F. 1668 (Urdahl) / S.F. 1940 (Sams)

	Revenue Gain or (Loss)			
	F.Y. 2004	**F.Y. 2005**	**F.Y. 2006**	**F.Y. 2007**
		(000's)		
General Fund	$0	($4,700)	($5,500)	($6,300)

Effective for tax years beginning after December 31, 2003.

EXPLANATION OF THE BILL

Current Law: Minnesota does not have a tax credit for purchases of capital equipment used in dairy farming.

Proposed Law: A taxpayer could claim a credit against the individual income tax or corporate franchise tax of 10% on up to $500,000 of expenditures spent for the acquisition, construction, or improvement of buildings and equipment associated with dairy farming. For $100,000 increments of expenditures above $500,000, the tax credit percentage decreases from 9% to 1%. If expenditures are $1,000,000 or more, the maximum credit is $75,000.

The credit is nonrefundable, and any unused credit could be carried forward for up to 15 years. The proposal includes the purchase of new equipment, the replacement of equipment due to normal wear and tear, improvements to buildings, and new construction. The purchase must be for dairy animal housing, confinement, animal feeding, milk production, or waste management. The purchase of an existing dairy facility and its equipment could qualify for the tax credit.

REVENUE ANALYSIS DETAIL

- Minnesota Agricultural Statistics estimate in 2002 there were 480,000 dairy cattle in Minnesota.
- Data from a MNSCU Farm Education Program indicates an annual investment in buildings and machinery of $422 per cow for dairy farmers participating in the class.

REVENUE ANALYSIS DETAIL (cont.)

- Data from the MNSCU program was scaled to produce a statewide average investment per cow based on the average herd size in the MNSCU data and the average herd size in the statewide data.
- The estimate assumes an average annual qualifying investment in buildings and machinery of $315 per cow
- The total investment in buildings and equipment is $151 million per year with a tax credit of $14.4 million per year.
- Because the credit cannot exceed the tax liability, it is assumed that thirty-three percent of the tax credit generated per year will be used in the first year, and the remaining credit will be claimed over the next twelve years.
- It is assumed that the tax year revenue loss will occur in the following fiscal year.

Number of Taxpayer Affected: There are 7,200 dairy farms potentially eligible for the credit. Because Minnesota law severely restricts the ability of corporations to engage in farming activities, a small percentage of the revenue loss is attributed to the corporate franchise tax.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

hf1668(sf1940)-1 / dkd