INCOME & CORPORATE TAX
Dairy Investment Credit

April 10, 2006

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 2862 (Sams), **As Amended (SCS2862A-3)**

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y. 2009**
		(000's)		
Dairy Investment Credit, As Introduced	$0	($4,700)	($5,200)	($5,700)
Pasture Development	$0	($75)	($83)	($91)
On-farm Processing	$0	($20)	($40)	($60)
General Fund Total	$0	($4,795)	($5,323)	($5,851)

Effective for tax years 2006 through 2011.

EXPLANATION OF THE BILL

This proposal would create a nonrefundable credit against the individual income tax or corporate franchise tax equal to 10% of the first $500,000 of qualifying dairy investments. Qualifying expenditures include amounts spent on acquisition, construction, or improvement of buildings or facilities, or the acquisition of equipment for dairy animal housing, confinement, feeding, milk production, and waste management. Examples of qualifying equipment include barns, fences, watering facilities, feed storage and handling equipment, milking parlors, robotic equipment, scales, milk storage and cooling facilities, bulk tanks, manure pumping and storage facilities, digesters, and equipment used to produce energy. The proposal includes a 15 year carry forward of unused investment credit. The maximum credit of $50,000 applies to the total credit taken over six years.

The amendment includes two additional investment types. Expenditures for developing pastures, excluding land acquisition costs, but including soil preparation, seed, planting, and weed control costs, are eligible. These costs are allowed once per acre owned or rented by the taxpayer for the use of dairy animals during the qualifying period. Also allowed are expenditures for on-farm processing of dairy products.

REVENUE ANALYSIS DETAIL

- A similar credit was enacted in Wisconsin, effective for tax years 2004 through 2009. For 2004 returns filed in 2005, the total credit that offset tax was $12.22 million on 6,464 returns, for an average credit of $1,890 per return. The participation rate for dairy enterprises for the Wisconsin program was 40% in the first year. It was assumed that Minnesota would have a similar experience in the first year.

REVENUE ANALYSIS DETAIL (Continued)

- It was assumed that the first-year cost for Minnesota would be 38.5% of the first-year cost in Wisconsin, which is the percentage of the number of dairy cows in Minnesota compared to the number in Wisconsin.
- For pasture development cost, it is assumed that 17,800 acres on dairy farms will qualify per year with average seeding costs of $105 per acre. These costs are assumed subject to the overall participation rate of 40%.
- Growth in the cost of the program is estimated at 10% annually, which would include price increases, increased participation, and any carryover of unused credit from a prior year.
- For on-farm processing costs, it is assumed that two farms will each invest $450,000 per year. It is assumed that 25% of the available credit would be used to offset tax in the first year, with remaining credit carried over and claimed in equal parts to the following three years.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: An estimated 2,200 farms for tax year 2006.

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

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