MINNESOTA · REVENUE

INCOME AND CORPORATE TAX
Dairy Investment Credit

April 19, 2005

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

Department of Revenue
Analysis of S.F. 516 (Sams) / H.F. 719 (Urdahl)

	Fund Impact			
	F.Y. 2006	F.Y. 2007	F.Y. 2008	F.Y. 2009
	(000's)			
General Fund	($6,500)	($7,800)	($9,000)	($10,200)

Effective for tax years beginning after December 31, 2004.

EXPLANATION OF THE BILL

This proposal would create a non-refundable credit against the individual income tax or corporate franchise tax equal to a sliding percentage scale specified in the bill of qualifying dairy investments.

Qualified investment would receive a credit on the following scale:
Up to $500,000 of investment would receive a 10% credit,
$500,000 - $600,000 would receive a credit of $50,000 plus 9% of the excess over $500,000,
$600,000 - $700,000 would receive a credit of $59,000 plus 7% of the excess over $600,000,
$700,000 - $800,000 would receive a credit of $66,000 plus 5% of the excess over $700,000,
$800,000 - $900,000 would receive a credit of $71,000 plus 3% of the excess over $800,000,
$900,000 - $1,000,000 would receive a credit of $74,000 plus 1% of the excess over $900,000,
and investments over $1,000, 000 would receive a credit of $75,000.

Qualifying expenditures include amounts spent on acquisition, construction, or improvement of 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.

REVENUE ANALYSIS DETAIL

- Data sources were an industry survey taken by the MN Department of Agriculture and the 2002 Census of Agriculture published in February and June of 2004.
- Survey participation rate for dairy enterprises is 25%.
- Inflation is assumed to be 1.85% per year.
- Acquisitions of entire farms are assumed not to qualify.
- It is assumed that 33% of the credit generated would be used to offset tax in the first year, with the remainder taken equally in each of the next 12 years.

Number of Taxpayers: Approximately 1,400 farms per year are expected to use this program.

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

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