MINNESOTA · REVENUE

INCOME TAX
Beginning Farmer Credits

April 6, 2006

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 3437 (Kubly) / H.F. 3843 (Koenen)

	Fund Impact			
	F.Y. 2006	F.Y. 2007	F.Y. 2008	F.Y. 2009
	(000's)			
Owner/Seller Credit	$0	$0	($3,125)	($3,440)
Owner/Renter Credit	$0	$0	($600)	($660)
Management Credit	$0	$0	($125)	($138)
General Fund Total	$0	$0	($3,850)	($4,238)

Effective for taxable years beginning after December 31, 2006.

EXPLANATION OF THE BILL

This bill creates two new income tax credits. The first 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. Seven qualifications are listed for beginning farmers. This credit equals 5% of the sale price of the asset, or 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 the tax liability, the excess may be carried forward 15 years.

The second credit for beginning farmers is equal to 100% of the cost of participating in a financial management program approved by the Rural Finance Authority, or $500, whichever is less. If the amount of the credit exceeds the tax liability, the excess may be carried forward 3 years.

The credits may by claimed only after approval and certification by the Rural Finance Authority.

REVENUE ANALYSIS DETAIL

- For the seller portion of the owner credit, the current annual level of 250 beginning farmer bond participants is assumed. Average farm sale price of $250,000 is assumed to be valid for beginning farmers. Livestock operations are assumed to be included in farm sales. This portion of the credit equals 5% of sales price, a total of $3.125 million in the first year.
- For the renter portion of the owner credit, 50% of the current annual level of 250 beginning farmer bond participants is assumed to be both buyers and renters. A quarter section cash rental gross rent of $16,000 is assumed to be valid for beginning farmers. Share rent agreements are assumed to be included. This portion of the credit equals 10% of first three year's gross rental, a total of $600,000 in the first year.

REVENUE ANALYSIS DETAIL, continued

- The management credit is assumed to be equal to 250 participants by $500, a total of $125,000.
- 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.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: An estimated 250 farms for tax year 2007.

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

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