

MINNESOTA • REVENUE

**INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
GENERAL SALES TAX
Bovine Tuberculosis Provisions**

April 16, 2008

Preliminary Analysis

State Taxes Only – See Separate
Analysis for Property Tax Provisions

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H. F. 4181 (Olin) / S. F. 3833 (Skoe)

	Fund Impact			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
		(000's)		
Bovine Testing Credit	\$0	(\$20)	(\$20)	(\$20)
Income Tax Subtraction	\$0	(\$45)	(\$10)	(\$10)
Sales Tax Exemption for Fencing	<u>\$0</u>	<u>(\$430)</u>	<u>(\$470)</u>	<u>(\$470)</u>
General Fund Total	\$0	(\$495)	(\$500)	(\$500)

Income tax provisions are effective beginning with tax year 2008.

Sales tax exemption is effective for sales and purchases made after June 30, 2008.

EXPLANATION OF THE BILL

Bovine Testing Credit

A refundable credit against the individual income tax or corporate franchise tax is allowed for an amount equal to 50% the expenses incurred by the owner of cattle to conduct tuberculosis testing on those cattle. The bill would change the credit to 100% of costs for testing of cattle located in a proposed Bovine Tuberculosis Management Zone, as designated by the United States Department of Agriculture. The credit would remain at 50% for the rest of the state.

Income Tax Subtraction

The bill would allow a subtraction from taxable income for the net capital gain or other income resulting from the eradication of a cattle herd to prevent the spread of bovine tuberculosis or for any compensation paid for the eradication. The subtraction applies to the individual income tax only. In order to qualify, the taxpayer must agree to rebuild the herd within 12 months of the date the area including the taxpayer's farm has been declared free of tuberculosis. If the herd is not rebuilt as required, an addition to income would be required in a subsequent year.

Sales Tax Exemption

The bill would exempt livestock fencing from sales tax. The exemption would be statewide.

REVENUE ANALYSIS DETAIL

Bovine Testing Credit

- It is anticipated that the Bovine Tuberculosis Management Zone would be located in Lake of the Woods, Beltrami, Roseau, and Marshall Counties. Cattle in this area account for about 3.1% of all cattle in Minnesota. It is expected that the credit for bovine tuberculosis testing would rise from the current amount of approximately \$700,000 per year to about \$720,000.

Income Tax Subtraction

- According to the Minnesota Board of Animal Health, eleven herds have been found to have bovine tuberculosis since 2005. 53 eligible herds remain within the Bovine Tuberculosis Management Zone. It is assumed that 20 herds would participate in an eradication buyout. Average size of a herd is assumed to be 75 animals.
- If the eradication of a herd were to qualify as an involuntary conversion under federal law, then payments pursuant to the eradication would not be part of taxable income unless the farmer did not rebuild the herd within two years. If the involuntary conversion provisions apply, there would be no income subject to the proposed subtraction.
- If the involuntary conversion provisions do not apply, payments made to farmers who sell their herds under an eradication program would be included in income and are assumed to follow the terms specified in H. F. 4075. At a price of \$500 per head, the taxable gain would be at a maximum \$37,500 per participating farm. Assuming a tax rate of 6%, the tax on this amount would be \$2,250 per farm. Per the provisions of H. F. 4075, it is assumed that all those farms that participate would do so in tax year 2008. In addition, it is assumed that ongoing payments of \$75 per head would be made to participating farmers as long as the area was not declared bovine tuberculosis-free, and that this status would continue at least through tax year 2010.

Sales Tax Exemption

- Fencing estimates were based on information from Iowa State University and the Minnesota Department of Agriculture. It was estimated that \$7.1 million was spent on currently taxable fencing for livestock in 2005. The estimate for fiscal year 2009 was adjusted for the effective date.

Number of Taxpayers: About 20 taxpayers would be affected by the herd eradication subtraction. The fencing sales tax exemption would apply to livestock farms statewide.

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