

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Beginning Farmer Credits

February 1, 2007

|                                  | Yes | No |
|----------------------------------|-----|----|
| DOR Administrative Costs/Savings | X   |    |

Department of Revenue  
Analysis of S.F. 287 (Kubly)

|                                    | <u>Fund Impact</u> |                  |                  |                  |
|------------------------------------|--------------------|------------------|------------------|------------------|
|                                    | <u>F.Y. 2008</u>   | <u>F.Y. 2009</u> | <u>F.Y. 2010</u> | <u>F.Y. 2011</u> |
|                                    |                    |                  | (000's)          |                  |
| Beginning Farmer Incentive Credit  | (\$600)            | (\$660)          | (\$730)          | (\$800)          |
| Beginning Farmer Management Credit | (\$375)            | (\$375)          | (\$375)          | (\$375)          |
| <b>General Fund Total</b>          | <b>(\$975)</b>     | <b>(\$1,035)</b> | <b>(\$1,105)</b> | <b>(\$1,175)</b> |

Effective for taxable years beginning after December 31, 2006.

### EXPLANATION OF THE BILL

This bill creates two nonrefundable credits against the individual income tax or corporate franchise tax related to beginning farmers. The bill lists the requirements to qualify as a beginning farmer. Among other things, the person must be a Minnesota resident who is seeking entry or has entered into farming or livestock production within the last seven years, and the person must participate in an approved farm management program.

The beginning farmer incentive credit is allowed to an owner of agricultural land who rents the land to a beginning farmer. This credit is allowed in each of the first three years of a rental or share rent agreement and equals 10% of the gross rental income or 15% of the cash equivalent of the gross rental income under a share rent agreement. If the amount of the credit exceeds the tax liability, the excess may be carried forward up to fifteen years.

The beginning farmer management credit is allowed to beginning farmers and is equal to 100% of the cost of participating in a farm management program approved by the Rural Finance Authority, or \$500, whichever is less. The credit is available for up to three years while the farmer is in the program. If the amount of the credit exceeds the tax liability, the excess may be carried forward up to three years.

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

## REVENUE ANALYSIS DETAIL

- Based the current annual level of 250 beginning farmer bond participants, it is assumed that 250 people enter into farming each year.
- For the beginning farmer incentive credit, it is assumed that 50% of the people entering farming each year, or 125, would each be renting a quarter section of land. 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. The credit allowed to the owner of the land would be \$1,600.
- Because the definition of a beginning farmer includes a person who has entered into farming with the last seven years, in a given tax year the credit could be claimed for renting to persons who entered farming that year and in the six previous years. It is assumed that, on average, the number claiming the credit for a tax year would be the equivalent of three times the number entering farming each year who rented land. If 375 owners of land would each receive a credit of \$1,600, the total cost would be \$600,000.
- Growth is estimated at 10% annually, which would include price increases and increased participation.
- For the beginning farmer management credit, participation in the program is one of the requirements to qualify as a beginning farmer. Because the credit is allowed to a beginning farmer for up to three years, it is assumed that, on average, the number claiming the credit would be the equivalent of three times the number entering farming each year. If 750 participants claim the credit at \$500 each, the total cost would be \$375,000.
- Tax year impact was allocated to the following fiscal year.

**Number of Taxpayers:** Each year an estimated 375 owners of rental land would claim the incentive credit, and an estimated 750 beginning farmers would claim the management credit.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)