

March 23, 2021

	<b>Yes</b>	<b>No</b>
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 1456 (Marquart), as Proposed to be Amended (H1456A1)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>
	(000's)			
Beginning Farmer Credit	(\$5,700)	(\$6,000)	(\$3,500)	\$0
Appropriation	<u>(\$300)</u>	<u>(\$300)</u>	<u>(\$300)</u>	<u>\$0</u>
General Fund Total	(\$6,000)	(\$6,300)	(\$3,800)	\$0

Effective beginning with tax year 2021.

**EXPLANATION OF THE BILL**

**Current Law:** The beginning farmer incentive credit is an income tax credit for the rent or sale of agricultural assets to beginning farmers. An agricultural asset includes land, livestock, facilities, buildings and machinery used for farming in Minnesota. A beginning farmer must be a Minnesota resident who is seeking entry, or has entered into farming within the last 10 years; who will provide the majority of the labor and management of the farm that is located in Minnesota; has adequate experience and knowledge of the type of farming for which they seek assistance from the Rural Finance Authority; can provide positive projected earnings statements; is not directly related to the owner of the asset; and has a net worth that does not exceed the limit for eligibility for beginning farmer loans.

The credit is equal to one of the following:

- 5% of the lesser of the sale price or fair market value of the agricultural asset up to a maximum of \$32,000;
- 10% of the gross rental income in each of the first three years of a shared rental agreement, up to a maximum of \$7,000 per year; or
- 15% of the cash equivalent of the gross rental income in each of the first three years of a share-rent agreement, up to a maximum of \$10,000 per year.

The credit is nonrefundable but may be carried forward for up to 15 years. The total value of credits allocated by the Rural Finance Authority is capped at \$6 million per year. Certificates for the credit are issued on a first-come first-served basis, but with preference for some re-certifications. The credit will expire after tax year 2023.

**Proposed Law:** The bill eliminates the requirement that the beginning farmer or spouse is not directly related to the owner of the agricultural assets. A beginning farmer who is related is only eligible for the credit for the sale of agricultural assets, not for rentals or share-rent agreements.

## **EXPLANATION OF THE BILL (Cont.)**

The bill also establishes criteria for the sale price for these newly eligible beginning farmers. The sale price of the agricultural asset paid for by the beginning farmer must equal or exceed the assessed value of the asset, or if there is no assessed value, 80% of the fair market value of the asset.

As proposed to be amended, the bill increases the credit to 10% of the sale price or fair market value of agricultural asset if the asset is sold to a socially disadvantaged farmer. These are farmers who are members of a racial or ethnic group who have been subjected to prejudice because of their identify as a part of that group.

For tax years 2021 through 2023, the bill reduces the total available credits by 5% and allocates that money from the General Fund to the Rural Finance Authority to develop an online application system and administer the credits. This reduces the maximum allocation to \$5.7 million in credits for those years.

## **REVENUE ANALYSIS DETAIL**

- About \$2.4 million in credits were claimed in tax year 2019. The credit is expected to grow to about \$4.1 million in tax year 2023 under current law.
- This estimate is based on data from the Electronic Certificate of Real Estate Value database where Minnesota real estate sales are recorded.
- In 2018 there were 1,390 sales of agricultural assets to relatives totaling \$1.06 billion. In 2019 there were 1,709 sales totaling \$842 million.
- It is unknown how many of those sales would qualify for the credit. This estimate assumes that 10% of sales to relatives would qualify for the credit.
- The number of sales to socially disadvantaged beginning farmers is unknown. Data from the 2017 Census of Agriculture reported that there were 89,383 principal agricultural producers in Minnesota. About 704 were identified as a race eligible for socially disadvantaged farmer status, or less than 1% of the total. Total credits were increased by 2% to account for sales to socially disadvantaged farmers.
- Total credits available for allocation in 2021 are estimated at about \$15.2 million, including unallocated credits from previous years.
- It is expected that new credits will total \$5.7 million in tax year 2021, including sales to relatives and sales to socially disadvantaged farmers.
- A growth rate of 5% is assumed.
- All previously unallocated credits are expected to be claimed by tax year 2023.
- Tax year impacts are allocated to the following fiscal year.

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