

March 20, 2023

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 1879 (Putnam) 1st Engrossment

	Fund Impact			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
			(000's)	
General Fund	(\$5,800)	(\$8,700)	(\$9,100)	(\$9,500)

Effective beginning in tax year 2023.

EXPLANATION OF THE BILL

Current Law: The beginning farmer 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 farming within the last 10 years, and who will provide the majority of the labor and management of the farm that is located in Minnesota. Further they must have adequate experience and knowledge of the type of farming for which they see assistance from the Rural Finance Authority, can provide positive projected earnings statements, is not directly related to the owner of the asset, and have a net worth that does not exceed the eligibility limit for beginning farmer loans.

The credit is equal to one of the following:

- 5% of the lesser of the sale price or the 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, second, and third years of a 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, second, and third 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 a preference for some re-certifications. The credit will expire after tax year 2023.

Proposed Law: For credits for the sale of agricultural land, the bill eliminates the requirement that the beginning farmer or spouse is not directly related to the owner. In such sales to a family member, the beginning farmer or their spouse is a family member of the owner of the agricultural land or a partner, member, shareholder, or trustee of the owner of the agricultural land. Furthermore, for a sale to a family member to qualify for the credit, the sales price of the agricultural land must equal or exceed 80% of the fair market value of the land as of the date of sale.

EXPLANATION OF THE BILL (Cont.)

The bill also increases the credit rate for sales from 5% to 8% and increases the maximum credit for sales from \$32,000 to \$50,000.

For sales to socially disadvantaged farmers, the credit rate is 12%. Socially disadvantaged farmers are defined as farmers who are members of a racial or ethnic group who has been subjected to prejudice because of their identifying as a part of that group.

The bill repeals the credit sunset, currently set to expire after tax year 2023.

REVENUE ANALYSIS DETAIL

- About \$2.5 million in credits were claimed in tax year 2021.
- The estimate is based on data from the Electronic Certificate of Real Estate Value database where Minnesota real estate sales are recorded.
- From 2018 through 2021, there were an average of 1,800 relative sales of agricultural land each year. The total purchase amount averaged \$546 million per year.
- It is unknown how many of those sales would qualify for the credit. This estimate assumes that 10% of the sales to relatives would qualify.
- The number of sales to socially disadvantaged beginning farmers is unknown. Data from the 2017 Census of Agriculture (the most recent available) 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 4% to account for sales to socially disadvantaged farmers, including those that are also familial sales.
- The bill increases the credit rate from 5% to 8% and the maximum credit increases from \$32,000 to \$50,000. About 45% of the credits are from sales, based on information from the Department of Agriculture, the credit from sales is assumed to increase by about 60%.
- With carryovers in unallocated credits from previous years, the total credits in a given year may exceed \$6 million. Once the carryovers are used up, the total credit will be limited to \$6 million per year.
- With the repeal of the sunset, credits will continue in tax year 2024 and beyond.
- A 5% growth rate is assumed.
- Tax year impacts are allocated to the following fiscal year.

Minnesota Department of Revenue
Tax Research Division
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