DEPARTMENT OF REVENUE

INDIVIDUAL INCOME TAX
Beginning Farmer Credit

March 4, 2025

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 1419 (Putnam), As Proposed to be Amended (SCS1419A-2)

	Fund Impact			
	F.Y. 2026	**F.Y. 2027**	**F.Y. 2028**	**F.Y. 2029**
	(000's)			
General Fund	($1,300)	($1,400)	($1,400)	($1,500)

Effective beginning in tax year 2025.

EXPLANATION OF THE BILL

Current Law: The beginning farmer credit is a credit against the individual income tax or corporate franchise tax 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. Furthermore, they must have adequate experience and knowledge of the type of farming for which they seek assistance from the Rural Finance Authority (RFA), can provide positive projected earnings statements, and have a net worth that does not exceed the eligibility limit for beginning farmer loans.

For a sale to a family member to qualify for the credit, the sales price of the agricultural land must equal or exceed the assessed value of the land as of the date of sale.

The credit is equal to one of the following:

- 8% of the lesser of the sale price or the fair market value of the agricultural asset, up to a maximum of $50,000;
  - For a sale to an emerging farmer the credit rate is increased to 12%,
- 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.

Each year, 50% of newly allocated credits are reserved for emerging farmers. Any reserved credits not allocated by September 30 are available for allocation to others beginning on October 1. Emerging farmers are defined in statute as farmers or aspiring farmers who are women, veterans, persons with disabilities, American Indian or Alaskan Natives, members of a community of color, young, and urban, and any other emerging farmers as determined by the Commissioner of Agriculture.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The credit is nonrefundable but may be carried forward for up to 15 years. The total value of credits allocated by the RFA is capped at $4 million per year beginning in 2024. Certificates for the credit are issued on a first-come first-served basis, but with a preference for some recertifications. The credit will expire after tax year 2030.

Proposed Law: The bill removes the cap on the total amount of credits that may be allocated by the RFA per year beginning with tax year 2025. Since there would be no cap on the total amount of credits, the bill also eliminates the requirement that 50% of newly allocated credits be reserved for emerging farmers and the ‘first-come first-served’ allocation process with associated allocation dates.

The bill also replaces references to “emerging farmers” with “limited land access farmers”, defined as farmers farming without ownership of land. Sales to limited land access farmers would be eligible for the 12% credit rate that currently applies to sales to emerging farmers.

Applications for credits for the sale of agricultural assets would be due by November 1 of each year. Applications for credits for rent or rent share agreements would be due by July 1 of each year.

REVENUE ANALYSIS DETAIL

- About $5.2 million in credits were claimed in tax year 2023 on about 600 returns, based on the M-1 Processing Report.
- The credit is currently limited to $4.0 million per year. The bill removes the cap on the total value of credits that may be allocated by the RFA.
- Credits are expected to be about $5.3 million in tax year 2025.
- A 1% growth rate is assumed.
- Tax year impacts are allocated to the following fiscal year.

Minnesota Department of Revenue
Tax Research Division
https://www.revenue.state.mn.us/revenue-analyses