

March 14, 2022

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 3713 (Miller)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
		(000's)		
Beginning Farmer Incentive Credit	\$0	(\$600)	(\$700)	\$0
Beginning Farmer management Credit	<u>\$0</u>	<u>(\$100)</u>	<u>(\$300)</u>	<u>\$0</u>
General Fund Total	\$0	(\$700)	(\$1,000)	\$0

Assumed effective beginning tax year 2022.

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.

The beginning farmer management credit is an income tax credit for a beginning farmer who participates in a financial management program. The credit is equal to 100% of the cost of participating in the program not exceeding \$1,500 per year, for up to three years while the farmer is in the program. The credit will expire after tax year 2023.

Proposed Law: The proposal expands the eligibility definition of a beginning farmer to include limited liability companies that are owned by a single individual.

REVENUE ANALYSIS DETAIL

Beginning Farmer Incentive Credit

- Under current law, the beginning farmer incentive credit is expected to total \$2.2 million per year, based on the average credit claimed in tax year 2018 through 2020.
- Total credits available for allocation in 2022 are estimated at about \$13.5 million, including unallocated credits from previous years.
- In tax year 2020, approximately 570 returns claimed the beginning farmer incentive credit.
- The number of sales to single member LLCs that would qualify for the credit is unknown.
- Data from the 2017 Census of Agriculture showed there were about 2.1 million farms in the United States. Of those, approximately 49,200 (2.3%) were identified as being LLCs with only one producer.
- Based on data from agricultural real estate purchases in Minnesota by organizations, there were approximately \$604 million in purchases in calendar year 2020. These do not include purchases between relatives or purchases by individuals.
- It is assumed 2% of Minnesota sales would be to newly eligible beginning farmers under the proposal, based on the percentage of LLCs with only one producer from the 2017 Census of Agriculture.
- Tax year impacts are allocated to the following fiscal year.

Beginning Farmer Management Credit

- In tax year 2020, there were 370 returns claiming the beginning farmer management credit.
- It is unknown how many single member LLCs would qualify for the beginning farmer management credit.
- It is assumed the beginning farmer management credit would increase by the same proportion as the estimated beginning farmer incentive credit.
- Beginning farmers claiming the management credit in tax year 2022 are assumed to also be eligible in tax year 2023.
- Tax year impacts are allocated to the following fiscal year.

Number of Taxpayers: Unknown

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