

March 30, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 1228 (Weber) as Proposed to be Amended (SCS1228A-2)

	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 Credit	\$0	(\$2,800)	(\$3,100)	(\$3,300)
Appropriation	<u>\$0</u>	<u>(\$300)</u>	<u>(\$300)</u>	<u>(\$300)</u>
General Fund	\$0	(\$3,100)	(\$3,400)	(\$3,600)

Effective for tax years 2022 through 2029.

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.

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.

EXPLANATION OF THE BILL (Cont.)

Additionally, the bill increases the credit from 5% to 10% of the sale price or fair market value of agricultural asset if the asset is sold to a socially disadvantaged farmer. Socially disadvantaged farmers are defined as 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 beginning after tax year 2021, 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.

The bill would extend the credit through the end of tax year 2029.

REVENUE ANALYSIS DETAIL

- About \$2.5 million in credits were claimed in tax year 2020.
- This estimate is based on data from the Electronic Certificate of Real Estate Value database where Minnesota real estate sales are recorded.
- From 2018 to 2021, there were an average of 1,800 sales of agricultural assets 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 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 (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 2% to account for sales to socially disadvantaged farmers.
- A growth rate of 5% is assumed.
- Tax year impacts are allocated to the following fiscal year.
- Because of the extension of the sunset, there will be additional revenue losses through fiscal year 2030.

Minnesota Department of Revenue
Tax Research Division
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