Department of Finance and Administration

Legislative Impact Statement

Bill: HB1778
Bill Subtitle: TO CREATE INCOME TAX CREDITS FOR BEGINNING FARMERS AND OWNERS OF AGRICULTURAL ASSETS.

Basic Change :

Sponsor: Rep. Jett

HB1778 creates a non-refundable income tax credit for beginning farmers and owners of agricultural assets who sell or rent to beginning farmers.

Beginning Farmers - A beginning farmer, who must meet certain criteria to be certified as a beginning farmer by the Secretary of the Department of Agriculture, is allowed an income tax credit equal to the cost of participating in a certified financial management program. The beginning farmer may carry forward any unused credit for three years following the year in which the credit is earned.

Owners of Agricultural Assets - An owner of agricultural assets is allowed an income tax credit for selling or renting agricultural assets to beginning farmers. The owner is allowed a credit of:

- 5% of the sale price of the agricultural asset in the tax year of the sale;
- 10% of gross rental income received during each of the first three (3) years of a rental agreement; and
- 15% of the cash equivalent of the gross rental income received during the first three (3) years of a share rent agreement.

For share rent agreements, the owner must claim the credit for the three taxable years ending during the first three years of the share rent agreement, and the owner cannot claim credit for more than one share rent agreement of the same agricultural asset to the same beginning farmer. The owner may carry forward any unused credit for 15 years following the year in which the credit is earned.

HB1778 provides that the Secretaries of the Department of Finance and Administration and the Department of Agriculture may adopt rules to implement the income tax credit. The Secretary of the Department of Agriculture will be required to certify beginning farmers and financial management programs.

The bill provides that the income tax credit will be effective for tax years beginning on or after January 1, 2022.

Revenue Impact :

FY2023 - $11.5 million reduction to State general revenues.

FY2024 - $12.9 million reduction to State general revenues.

FY2025 and after - $14.4 million reduction to State general revenues.

[Revenue Impact was estimated using various reports from the US Department of Agriculture, the Arkansas Farm Bureau, University of Arkansas Department of Agriculture and information concerning the Minnesota Tax Credit which appears to be a model for this bill. The Minnesota program has an annual cap of $12 million per year, but this bill does not have a cap. The revenue estimates are based on current levels of sales and leases to new farmers in Arkansas and do not include a possible increase in activity as a result of the credit.

HB1778 includes three different means by which a taxpayer can earn a credit:

1. Beginning farmers can earn tax credits for the costs of participating in a certified financial management program and the credit is limited to tax due. The credits have a 3-year carryforward. Cost of the program is estimated at this time and is to be determined by the Department of Agriculture upon creation of the program. Estimated impact based on net income - $4 million per year.
2. 5% tax credit based on sale of agricultural asset by owner to new farmer. Equipment dealers are excluded. Estimated $6 million per year.
3. 10% of gross rental income for first three years or 15% of the principal of a share rent agreement. $1.4 Million year one, $2.8 Million in year two, and $4.2 Million in year three and after.]

Taxpayer Impact :

Taxpayers must maintain records and evidence under the rules adopted to administer this section to prove eligibility for the credit. Applications must be made to the Department of Agriculture prior to completion of the proposed sale or lease. Records must be maintained for six years for credits that carry forward three years and 15 years for credits that carry forward 15 years.

Resources Required :

Computer programs, tax forms, and instructions will need to be updated. Staff will need to be trained on the rules adopted to administer the credit.

The Tax Credits Section of the Department of Finance and Administration (DFA) would require additional staff to review applications and to determine limitation amounts available for later years. Anticipated staff needed are as follows (total additional personnel cost of $465,000 per year):

- One DFA Revenue Manager 2 or higher to supervise other personnel needed to administer the program. - $90,000 per year.
- One Audit Supervisor to supervise audit staff. - $75,000 per year
- Three Auditors to review audits of eligible applicants. - $200,000 per year.
- Two Fiscal Support Analysts to help with any extra duties and support audit staff members. - $100,000 per year.

Computer programs, tax forms, and instructions will need to be updated. Staff will need to be trained on the rules adopted to administer the credit.

Time Required :

Adequate time is provided for implementation.

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Procedural Changes :

Updates to the Income Tax Rules will need to be promulgated and updated instructions published. The Secretary of the Department of Agriculture and DFA may adopt rules to implement the program. DFA staff and the tax community will need to be trained to implement the new credit program.

Other Comments :

None.

Legal Analysis :

None.