Department of Finance and Administration

Legislative Impact Statement

Bill: HB1003
Bill Subtitle: TO CREATE INCOME TAX CREDITS FOR BEGINNING FARMERS AND OWNERS OF AGRICULTURAL ASSETS.

Basic Change :

Sponsors: Reps. J. Mayberry, D. Garner

HB1003 creates a non-refundable income tax credit for beginning farmers and owners of agricultural assets who sell or rent to beginning farmers. The total amount of state income tax credits awarded is limited to $10 million per year and would be issued on a first-come, first-served basis upon certification by the Department of Finance and Administration (DFA) and the Department of Agriculture.

Beginning Farmers --- A beginning farmer, who must meet certain criteria to be certified as a beginning farmer by 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 years of a rental agreement; and
- 15% of the cash equivalent of the gross rental income received during the first three 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.

HB1003 provides that the Secretaries of DFA 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, 2024.

Revenue Impact :

FY2024 - $6.1 million General Revenue Reduction

FY2025 and after - $10 million General Revenue Reduction

[Revenue Impact was estimated using various reports from the U.S. 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 revenue estimates are based on current levels of sales and leases to new farmers in Arkansas and do not include a possible

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increase in activity as a result of the credit.

HB1003 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 three-year carryforward. Cost of the program is estimated $1,500 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. Program cost of $1,500 x 2,678 estimated new farmers.
2. 5% tax credit based on sale of agricultural asset by owner to new farmer. Equipment dealers are excluded. Estimated $6 million based on equipment value data multiplied by the average number of new farms per year in Arkansas estimated at approximately 2,678 and then multiplied by 5%.
3. 10% of gross rental income for first three years or 15% of the principal of a share rent agreement. $2.17 million year 1, $4.33 Million in year 2, and $6.5 Million in year 3 and after.]

Taxpayer Impact :

A taxpayer must maintain records and evidence under the rules adopted to administer this bill to prove eligibility for the credit. An application 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. AIRS programming costs to program a new income tax credit is estimated at $16,000.

The Tax Credits Section of DFA would require additional staff to review certifications and to determine limitation amounts. Anticipated personnel cost totaling $180,000 per year as follows:

- Two Auditors to review audits of eligible applicants at $130,000 per year.
- One Fiscal Support Analyst to support audit staff at $50,000 per year.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Updates to the Income Tax rules will need to be promulgated and updated instructions published. The Secretaries of the Department of Agriculture and DFA may adopt rules to implement the program. The Tax Credits and Special Refunds Section of DFA shall award and establish the tax credits and notify the Department of Agriculture when the cap is reached.

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Other Comments :

None.

Legal Analysis :

None.