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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research and Drafting

Legislative Budget Office

S.B. 159
133rd General Assembly

Fiscal Note & Local Impact Statement

Click here for S.B. 159's Bill Analysis

Version: As Introduced

Primary Sponsor: Sen. Peterson

Local Impact Statement Procedure Required: Yes

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Highlights

- Under the bill, nonrefundable income tax credits could be claimed by persons who began farming within the last ten years for the cost of participation in an approved program, and by owners of agricultural property sold or rented to these newer farmers.
- Up to an estimated 24,000 taxpayers could potentially claim a credit.
- Revenue losses are uncertain, due to data limitations, but plausible illustrative scenarios yield losses ranging to hundreds of millions of dollars.
- The GRF, Local Government Fund (LGF, Fund 7069), and Public Library Fund (PLF, Fund 7065) would bear the loss.
- The Department of Agriculture would likely need to hire at least one new program administrator to oversee the new tax credit. If so, the additional payroll and fringe benefits costs for that one employee would be between $59,000 and $73,000 annually.

Detailed Analysis

Summary of fiscal effects

The potential costs of the bill could be as much as hundreds of millions of dollars. Actual costs might be held down by various factors, but the bill sets no dollar limits on use of credits. A more precise estimate of revenue losses is precluded by data limitations.

Additional information

The bill would let an individual claim a credit against the state personal income tax equal to the cost of participating in a financial management program approved by the Director of Agriculture, if that individual is certified as a beginning farmer in the same taxable year. The credit for the farmer would be nonrefundable but could be carried forward up to three years.

The bill also would allow an owner of agricultural assets who sells or rents the assets to a beginning farmer to claim a nonrefundable credit against the owner's state personal income taxes equal to (1) 5% of the sale price of the asset, (2) 10% of gross rental income in the first three years of the rental agreement, or (3) 15% of the cash equivalent of the gross rental income in the first three years of a share-rent agreement. The credit for the asset owner would be nonrefundable but could be carried forward up to 15 years.

Under the bill, a beginning farmer is an Ohio resident seeking to enter farming or who entered farming in the last ten years, who farms or intends to farm in this state, who is not a relative of the owner of the assets to be sold or rented, and who meets other requirements including having participated in an approved financial management program. The bill sets no requirements for such a financial management program, other than that it be certified by the Director of Agriculture. Agricultural assets that may be sold or rented to qualify for the credit include land, livestock, facilities, buildings, and machinery used for agricultural production in Ohio. An owner of such assets qualifying for the credit in the bill cannot be a dealer who sells agricultural assets for profit. A rental must be at prevailing community rates, as determined by the Director of Agriculture, to qualify for the credit. Under a share-rent agreement, the owner receives a predetermined portion of agricultural production, and shares in costs and risk of loss.

Fiscal effect

The bill sets no dollar limits on any of these credits. Without knowing more about the cost of a financial management program that would be certified by the Director of Agriculture, or the potential charges for the agricultural assets that might be sold or rented by their owners to the beginning farmers, LBO's ability to estimate the fiscal impact of the bill is limited. We can approximate the number of beginning farmers who might qualify for such a program using data for Ohio from the 2017 Census of Agriculture. The data indicate that 25,674 principal producers were on farms for which the principal producers' years on the present farm were ten or fewer. Some of these persons had more than ten years total experience operating farms, including time previously operating farms other than the present farm. Those with ten or fewer years operating any farm numbered 24,317.

If we assume that about 24,000 farm operators might meet the years of service requirement as well as the other requirements in the bill to be counted as beginning farmers, then for each $1,000 of qualifying expenses, either for participating in an approved financial management program or for the percentage stated in the bill of the cost of sale or rental of agricultural assets to these beginning farmers, the cost to the state in foregone revenue would be $24 million. Part of this revenue loss might be deferred to future years and part might not occur because of expiration of unused tax credit carryforwards or because some individuals qualified to participate in the program might choose not to do so.

An indication of the potential cost of the bill's financial management program is given by the implementation of the Beginning Farmer Tax Credit Program in Minnesota, on which S.B. 159 is modeled. The Minnesota program went into effect in 2018. It allows a beginning farmer to claim a tax credit of up to $1,500 per year for up to three years (a total of $4,500 for each farmer) for an approved financial management program. Applied to the assumed total of 24,000 Ohio beginning farmers, $4,500 of tax credits would imply a tax revenue loss to this state totaling up to $108 million (spread over three years). The Minnesota program apparently sets an annual limit for all credits under the program of $5 million.

Agricultural land values in the state are given by statistics on the current agricultural use value (CAUV) program in 2018. The market value of CAUV land in that year averaged $4,554 per acre. At this price, the land in a hypothetical 160-acre farm would be worth $729,000, implying that the 5% credit in the bill would be valued at more than $36,000. If even a substantial portion of the assumed 24,000 beginning farmers bought such farms, the state's tax revenue loss could range into the hundreds of millions of dollars.

Cash rent rates for land are given by United States Department of Agriculture (USDA) estimates, which show for 2017 a statewide average for nonirrigated cropland of $152 per acre and for pasture land $25 per acre. At these rates, the hypothetical 160-acre farm might rent for about $24,000 per year if it could be used to grow crops or $4,000 as pasture land. At the bill's 10% credit for three years of gross rental income, times 24,000 assumed beginning farmers, the state's tax revenue loss could range to $175 million for cropland and $29 million for pasture land. Costs for share-rent agreements could be 50% higher at the bill's 15% credit for such agreements.

Farm machinery rental is at widely varying rates depending on the type of equipment and period of use or acreage to be worked. At the bill's 10% credit for three years, the potential revenue loss to the state clearly could be sizable.

Actual revenue losses if the bill is enacted would be less than the sum of the foregoing amounts. Some beginning farmers who are already established on farms might have limited opportunities to make the additional investments to qualify for the credits. An additional investment in land, for example, might be constrained by lack of nearby property owned by someone willing to sell or lease the land. A beginning farmer who already has a four-year degree in agriculture might be reluctant to participate in the required financial management program. Rental or purchase of a farm from a relative interested in helping the beginning farmer start a farm violates one of the requirements of the bill so would not qualify for the credits.

Thus, although the potential revenue losses under the program range to hundreds of millions of dollars, actual losses likely would be smaller. LBO has no basis for more precisely quantifying these losses.

For GRF revenue foregone, distributions to each of the Local Government Fund (LGF) and Public Library Fund (PLF) would be reduced by 1.66% of that revenue loss under codified law. In FY 2020 and FY 2021, under an uncodified provision of H.B. 166 of the 133rd General Assembly, the reduction is instead 1.68% for the LGF and 1.70% for the PLF. The GRF would bear the rest of the revenue loss.

Department of Agriculture

The Department of Agriculture would be responsible for approving applications and issuing tax credit certificates for the beginning farmer income tax credit and approving financial management programs that beginning farmers must take in order to qualify for the tax credit. As a result, the Department would likely need to hire at least one new program administrator to oversee the new tax credit. Based on the state's employee classification plan, if a program administrator is hired at the starting annual salary of approximately $45,000, it will bring the Department's potential payroll costs to between approximately $59,000 and $73,000. This includes $6,300 (14% of annual salary to cover the employer's share of retirement) and the

employer's share of health insurance ($7,830 for single coverage or $21,494 for family coverage under the state's traditional health plan). The state's annual health benefit costs would be slightly higher if the employee is enrolled in the state's high deductible health care plan.