Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 297 of the 131st G.A.

Date: February 22, 2016

Status: As Introduced

Sponsor: Rep. Hill

Local Impact Statement Procedure Required: Yes

Contents: To authorize a refundable income tax credit for current livestock owners who invest in a manure storage or treatment facility or acquire manure application equipment or manure handling and transportation equipment

State Fiscal Highlights

- Allowing a refundable tax credit for eligible investments against the state personal income tax (PIT) would reduce revenue from the PIT. The number of taxpayers likely to claim the credit is uncertain, but the revenue loss could be up to tens of millions of dollars per year.
- The credit is available for such investments made between January 1, 2005 and January 1, 2020; the revenue losses would therefore last until FY 2024.
- Because past investments are eligible, the revenue loss for the first few years would likely be larger than revenue losses in later years, and would be likelier to approach tens of millions.
- The state GRF would bear 96.64% of the revenue loss from the income tax credit. The remaining 3.36% would be borne by the Local Government Fund (1.66%) and the Public Library Fund (1.70%).

Local Fiscal Highlights

- Revenue losses to the state GRF would result in a decrease in the amount of total GRF tax revenue allocations to the Local Government Fund (LGF) and Public Library Fund (PLF). Each month, the LGF and PLF receive 1.66% and 1.70%, respectively, of total GRF tax receipts collected in the preceding month. A GRF revenue loss of $10 million, for example, would reduce LGF revenue by $166,000, and PLF revenue by $170,000.
- Because the credit is available for such investments made between January 1, 2005 and January 1, 2020, the associated revenue losses are temporary.
- Any revenue loss to the LGF and PLF will decrease distributions to each county and political subdivision.

Detailed Fiscal Analysis

The bill authorizes a refundable income tax credit for Ohio livestock owners who invest in a manure storage or treatment facility, or acquire manure application equipment, or manure handling and transportation equipment on or after January 1, 2005 and before January 1, 2020. The bill specifies that a livestock owner may not claim a credit under this bill unless he or she owned livestock in Ohio on the effective date of the bill and for the entire taxable year for which the credit is claimed.

The bill specifies that the amount of credit equals 50% of all eligible investments made by the livestock owner during the period described above. The livestock owner is allowed to claim one-fifth of the credit amount in each taxable year in which an investment is made and an additional one-fifth of the credit amount in each of the four ensuing taxable years. For eligible investments made after December 31, 2004, and before the start of the taxpayer's taxable year ending in 2015, the livestock owner is allowed to claim one-fifth of the credit amount for the taxable year ending in 2015 and an additional one-fifth of the credit amount in each of the four ensuing taxable years. The bill specifies that if the amount of the credit for a taxable year exceeds the amount of income tax otherwise due, the livestock owner is entitled to a refund of the excess.

The bill requires the Tax Commissioner to adopt rules for the administration of the tax credit. The bill specifies that the rules may require such livestock owners to submit information substantiating the amount of the eligible investment, divulging the primary location at which their livestock are cared for and raised, and describing how the eligible investment will assist them in complying with state law and federal guidelines concerning manure storage and application.

Fiscal effect

According to a bulletin prepared by Ohio State University professors in 2006,[1] the estimated costs related to manure handling systems for 100 lactating cows ranged between $18,000 and $32,000 per year. The estimated annual cost in 2015 would range between $27,360 and $48,640, adjusted using an index of prices paid by livestock farms in 2015.[2] The estimated refundable credit would range between $2,736 and $4,864 each year, over five taxable years.

Based on data from the 2012 Census of Agriculture, there were a total of 75,462 farms in Ohio, but the total number of farms with livestock was approximately 38,000. It is unlikely that all livestock owners would make the investment and claim the credit.

[1] Ohio Livestock Manure Management Guide, Ohio State University Extension Bulletin 604, published in 2006.

[2] Data derived from U.S. Department of Agriculture, National Agricultural Statistics Service, Index of Prices Paid by Livestock Farms, 2011=100. The values of the index in 2006 and 2015 were 75 and 114, respectively.

On the other hand, very large farms might install multiple systems like those described in the 2006 Extension Bulletin, and claim credits with a corresponding value. The Census of Agriculture does not provide breakdowns of the number of farms by precise number of livestock on the farm, but a report based on a previous Census of Agriculture does give breakdowns into very broad categories.[3]

Though there are good data on the number of potential taxpayers who might claim the credit, there is considerable uncertainty about the number of livestock owners who might claim it. If as few as 2.5% of livestock owners claimed the credit, the revenue loss could be as little as $2.6 million annually.[4] Assuming as many as one-third of the livestock farm operators took full advantage of the credit, state personal income tax revenues would decrease by up to $61.5 million per year. The actual revenue loss could be lower or higher than this range of estimates, depending on the specific needs and costs of the manure handling system used, the type of livestock on each farm, and the number of livestock farmers taking advantage of the credit. The most that LSC economists can say with confidence is that the revenue loss would likely be in the millions annually, and that we could not rule out revenue losses in the tens of millions.

Because the credit is available in tax year 2015 for investments made any time since December 31, 2004, the revenue loss in the first five years would be expected to be higher than in subsequent years, and more likely to be in the tens of millions. Because the credit is not available for investments made after December 31, 2019, the final year that the credit could be claimed would be tax year 2023, yielding revenue losses in FY 2024; after FY 2024 no additional revenue losses would result from the bill.

The state GRF would bear 96.64% of any revenue loss from the income tax credit. The remaining 3.36% would be borne by the Local Government Fund (1.66%) and the Public Library Fund (1.70%).[5] A GRF revenue loss of $10 million, for example, would reduce LGF revenue by $166,000, and PLF revenue by $170,000. Any revenue loss to the LGF and PLF will also decrease distributions to each county and political subdivision.

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[3] According to the report, Profile of Farms with Livestock in the United States: A Statistical Summary, Robert L. Kellogg, Natural Resources Conservation Service, USDA, February 4, 2002, in 1997 approximately 27% of farms with livestock in Ohio were farms with confined livestock, as defined in that publication, while another 35% were farms with pastured livestock types and few other livestock. Farmers that claim the credit would most likely have farms classified in one of these two categories.

[4] Where $2,736 x 38,000 x 0.025 equals $2.6 million. The subsequent example is found from the formula $4,864 x 38,000 x 0.333 = $61.5 million.

[5] The 1.70% PLF share is due to a temporary law provision of Am. Sub. H.B. 64 of the 131st General Assembly. In the absence of any further action by the General Assembly regarding this share, it will revert to 1.66% in FY 2018.