

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2117H.011
 Bill No.: HB 1023
 Subject: Agriculture; Department of Agriculture; Department of Revenue; Tax Incentives;
 Taxation and Revenue - General
 Type: Original
 Date: February 22, 2023

Bill Summary: This proposal allows subtractions from Missouri adjusted gross income for income received from certain transactions with beginning farmers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund*	(\$77,831 to \$1,229,943)	(\$58,800 to \$1,176,000)	(\$58,800 to \$1,176,000)
Total Estimated Net Effect on General Revenue	(\$77,831 to \$1,229,943)	(\$58,800 to \$1,176,000)	(\$58,800 to \$1,176,000)

*The loss of income tax revenue is based on the estimated cost of 49 new sale/lease/crop-share agreements occur each year.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on FTE	0	0	0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 143.121 Farm Owner Gross Income Subtractions

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would replace Section 143.121.8 with new language. B&P notes that the current subtraction granted under subsection 8 expired after tax year 2020. Therefore, the replacement of such language will not impact TSR or the calculation under Article X, Section 18(e).

This proposal would grant an income tax subtraction to farm owners that sell, lease, or enter crop-sharing agreements with beginning farmers. B&P notes that this proposal would become effective August 28, 2023, which is in the middle of tax year 2023. Therefore, B&P assumes that this subtraction would be available for tax year 2023 income tax returns.

This proposal would allow farmers who sell land to a beginning farmer to subtract the realized capital gains from their Missouri Adjusted Gross Income (MAGI) up to \$500,000 per year. Farmers who enter into lease or crop-share agreements may subtract related income from their MAGI, up to \$25,000 per year.

Beginning farms are defined as individuals who have filed up to ten Schedule F returns since turning 18 and have been approved for a beginning farmer loan through the USDA.

According to the USDA, there were 493 beginning farmers with loans through one of their beginning farmer loan programs. B&P notes that beginning farmers are those who have operated a farm for one to ten years. For the purpose of this fiscal note, B&P will assume that 1/10 of the 493 began operations each year. Therefore, B&P assumes that approximately 49 new sale/lease/crop-share agreements may occur each year.

B&P does not know much capital gains are realized each year or the income associated with lease/crop-share agreements. Therefore, B&P will estimate the total potential impact using the limits allowed in this proposal.

Assuming all farmers enter into leasing or crop-sharing agreements, B&P estimates that this proposal could exempt up to \$1,225,000 (49 agreements x \$25,000 limit) in income annually. If all farmers were to sell land to beginning farmers, this proposal could exempt up to \$24,500,000 in income each year. However, subtractions do not reduce revenues on a dollar for dollar basis, rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of SB 3 (2022).

Table 1: Revenue Loss by Year

Tax Rate	Tax Year (Fiscal Year)					
	2023 (FY24)		2024 (FY25)		2025 (FY26)	
	Low	High	Low	High	Low	High
4.95%	(\$60,638)	(\$1,212,750)	(\$60,638)	(\$1,212,750)	(\$60,638)	(\$1,212,750)
4.80%			(\$58,800)	(\$1,176,000)	(\$58,800)	(\$1,176,000)
4.70%					(\$57,575)	(\$1,151,500)
4.60%						
4.50%						

Table 1: Revenue Loss by Year

Tax Rate	Tax Year (Fiscal Year)			
	2026 (FY27)		2027 (FY 28)	
	Low	High	Low	High
4.95%	(\$60,638)	(\$1,212,750)	(\$60,638)	(\$1,212,750)
4.80%	(\$58,800)	(\$1,176,000)	(\$58,800)	(\$1,176,000)
4.70%	(\$57,575)	(\$1,151,500)	(\$57,575)	(\$1,151,500)
4.60%	(\$56,350)	(\$1,127,000)	(\$56,350)	(\$1,127,000)
4.50%			(\$55,125)	(\$1,102,500)

* Assuming the scheduled GR dependent triggers under SB 3 (2022) will be met consecutively each year.

Therefore, B&P estimates that this proposal could reduce TSR and GR by up to \$60,638 to \$1,212,750 in FY24. Once SB 3 (2022) has fully implemented, this proposal may reduce TSR and GR by up to \$55,125 to \$1,102,500 annually.

Officials from the **Department of Revenue (DOR)** note currently a taxpayer is allowed a subtraction from their Missouri adjusted gross income (MAGI) of 100% of the amount they paid for a home energy audit or the implementation of any energy efficiency recommendations. This subtraction was limited to \$1,000 for an individual taxpayer or \$2,000 for taxpayers filing combined. When this provision was originally created, it was allowed for tax years 2014 through 2020. This provision is being removed from statutes and since it has expired, is not expected to have any additional impact to state revenues.

This proposal in Section 143.121.8 creates new subtractions from MAGI of the capital gains, rental income and crop-share agreements income reported in a qualified taxpayer's federal adjusted gross income. These subtractions would be available to a farm owner who sells their whole/part of their property to a beginning farmer, rents to a beginning farmer or enters into a crop-share agreement with a beginning farmer. A qualified taxpayer may not claim more than

\$500,000 in capital gains from a sale. A qualified taxpayer may not claim more than \$25,000 in rental income received in a year or in crop-share income received in a year.

To be consider a beginning farmer under this proposal, the farmer must be approved for a loan from the USDA Farm Services Agency and have filed at least one but less than 10 IRS Schedule F returns. The USDA Farm Services Agency reports there are 493 beginning farmers with a loan in MO. Since the farmer must have filed less than 10 IRS annual returns, DOR will assume there are 49 new farmers annually.

DOR notes assuming that all the farmers would either qualify for the \$25,000 or the \$500,000, DOR estimates that this subtraction will result in a loss of \$1,225,000 ($\$25,000 * 49$) on the low end or \$24,500,000 ($\$500,000 * 49$) on the high end. Subtractions do not reduce revenue on a dollar for dollar basis but based on the top income rate applied.

DOR notes SB 3 (2022) has set the individual income tax rate at 4.95% for tax year 2023 and is expected to reduce the rate to 4.5% over a series of years based on certain revenue triggers. DOR will show the loss to general revenue based on the variable future tax rates.

Tax Year (Fiscal Year)						
Tax Rate	2023 (FY24)		2024 (FY25)		2025 (FY26)	
	Low	High	Low	High	Low	High
4.95%	(\$60,638)	(\$1,212,750)	(\$60,638)	(\$1,212,750)	(\$60,638)	(\$1,212,750)
4.80%			(\$58,800)	(\$1,176,000)	(\$58,800)	(\$1,176,000)
4.70%					(\$57,575)	(\$1,151,500)
4.60%						
4.50%						

Tax Year (Fiscal Year)				
Tax Rate	2026 (FY27)		2027 (FY 28)	
	Low	High	Low	High
4.95%	(\$60,638)	(\$1,212,750)	(\$60,638)	(\$1,212,750)
4.80%	(\$58,800)	(\$1,176,000)	(\$58,800)	(\$1,176,000)
4.70%	(\$57,575)	(\$1,151,500)	(\$57,575)	(\$1,151,500)
4.60%	(\$56,350)	(\$1,127,000)	(\$56,350)	(\$1,127,000)
4.50%			(\$55,125)	(\$1,102,500)

* Assuming the scheduled GR dependent triggers under SB 3 (2022) will be met consecutively each year.

This proposal will require DOR to add a new line on the MO-1040, the MO-1120 and the MO-PTE. DOR would also need to update their website and individual income tax computer system. This would result in costs of \$7,193.

Additionally, while the Department of Agriculture is tasked with establishing a process to verify if the beginning farmer meets the qualification stated in this proposal, and providing that farmer with confirmation of that qualification, DOR assumes they will have to create the confirmation form. DOR's tax returns and all schedules and attachments are designed to go through their electronic tax computer system. Setting up this confirmation form will result in additional costs of \$10,000.

Oversight will show the cost of system, forms, and website modifications as estimated by DOR as a one-time cost in FY 2024.

Oversight notes officials from B&P and DOR both assume the proposal will have a negative fiscal impact on general revenue. Oversight will show B&P and DOR's projected fiscal estimated impacts of this proposal throughout the implementation of the tax rate reductions from SB 3 (2022) to show the maximum low and high impact of the proposal.

Officials from the **Missouri Department of Agriculture** assume the proposal would not fiscally impact their department.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
Costs – DOR - §143.121 Form and Computer Upgrades p. (5)	(\$17,193)	\$0	\$0
<u>Revenue Reduction</u> - §143.121 Beginning farmer subtraction p. (3-5)	(\$60,638 to \$1,212,750)	(\$58,800 to \$1,176,000)	(\$58,800 to \$1,176,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$77,831 to \$1,229,943)</u>	<u>(\$58,800 to \$1,176,000)</u>	<u>(\$58,800 to \$1,176,000)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Small businesses who qualify for the income tax subtraction as defined in the bill could be impacted by this proposal.

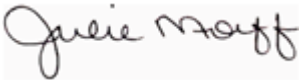
FISCAL DESCRIPTION

The proposed legislation allows subtractions from Missouri adjusted gross income for income received from certain transactions with beginning farmers.

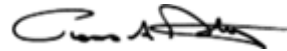
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
Missouri Department of Agriculture



Julie Morff
Director
February 22, 2023



Ross Strobe
Assistant Director
February 22, 2023