COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2117H.02C
Bill No.: HCS for HB 1023
Subject: Agriculture; Department of Agriculture; Department of Revenue; Tax Incentives; Taxation and Revenue - General
Type: Original
Date: March 3, 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 $9,719,193)	($58,800 to $9,408,000)	($57,575 to $9,212,000)
Total Estimated Net Effect on General Revenue	**($77,831 to $9,719,193)**	**($58,800 to $9,408,000)**	**($57,575 to $9,212,000)**

*The loss of income tax revenue is based on the estimated cost of 49 new sale/lease/crop-share agreements occurring each year. Actual counts/amounts could vary substantially. The fiscal note reflects the assumptions that the SB 3 (2022) reductions are triggered consecutively.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on Other 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 All 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 or qualified family members. 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 or qualified family member to subtract the realized capital gains from their Missouri Adjusted Gross Income (MAGI) up to $4,000,000 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 farmers 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. Beginning farmers is also defined to include qualified family members, regardless of how long such individual has operated a farm.

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 assumes 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 notes that additional individuals may qualify under this proposal as a qualified family member. B&P is unable to estimate the number of qualified family members.

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. This proposal would allow a percent of the capital gains to be subtracted, based on the amount of capital gains realized. For total capital gains of up to $6 million, a qualifying taxpayer may subtract up to $4 million. Table 1 shows the allowable subtraction by capital gain amount.

Table 1: Allowable Capital Gains Subtraction

Capital Gains	Subtraction %	Allowable Subtraction
First $2 million	100%	up to $2,000,000
Next $1 million	80%	up to $800,000
Next $1 million	60%	up to $600,000
Next $1 million	40%	up to $400,000
Next $1 million	20%	up to $200,000
Up to $6 million		up to $4,000,000

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 $196,000,000 ($4,000,000 x 49 sales) 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)	($9,702,000)	($60,638)	($9,702,000)	($60,638)	($9,702,000)
4.80%			($58,800)	($9,408,000)	($58,800)	($9,408,000)
4.70%					($57,575)	($9,212,000)
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)	($9,702,000)	($60,638)	($9,702,000)
4.80%	($58,800)	($9,408,000)	($58,800)	($9,408,000)
4.70%	($57,575)	($9,212,000)	($57,575)	($9,212,000)
4.60%	($56,350)	($9,016,000)	($56,350)	($9,016,000)
4.50%			($55,125)	($8,820,000)

Therefore, B&P estimates that this proposal could reduce TSR and GR by up to $60,638 to $9,702,000 in FY24. Once SB 3 (2022) has fully implemented, this proposal may reduce TSR and GR by up to $55,125 to $8,820,000 annually.

Officials from the **Department of Revenue (DOR)** note this proposal in Section 143.121.10 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 claim a percentage based on the amount of the first capital gains received:

For the first $2 million – 100%	($2,000,000)
For the next $1 million – 80%	($800,000)
For the next $1 million - 60%	($600,000)
For the next $1 million - 40%	($400,000)
For the next $1 million – 20%	($200,000)
	($4,000,000)

The maximum amount a taxpayer could receive in a subtraction is $4 million. Farmers who enter into lease or crop-share agreements may subtract related income from their MAGI, up to $25,000 per year.

To be consider a beginning farmer under this proposal, the farmer must be approved for a loan from the USDA Farm Service Agency and have filed at least one but less than 10 IRS Schedule F returns. The USDA Farm Service 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.

The Department is unable to determine the amount of capital gains realized by taxpayers who sell their farmland or the amount of income received from lease/crop-share agreements. Therefore, DOR will show the estimates based on the limits in the proposal. If all farmers entered into a leasing or crop-sharing agreement, this would exempt $1,225,000 (49 beginning farmers * $25,000 limit) annually. If all those farmers decided to sell their property and reached the maximum subtraction it would exempt up to $196,000,000 (49 beginning farmers * $4,000,000 capital gains limit).

Subtractions do not reduce revenue on a dollar for dollar basis but based on the top income rate applied. 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.

Revenue Loss by Year

	Tax Year (Fiscal Year)					
Tax Rate	2023 (FY24)		2024 (FY25)		2025 (FY26)	
	Low	High	Low	High	Low	High
4.95%	($60,638)	($9,702,000)	($60,638)	($9,702,000)	($60,638)	($9,702,000)

4.80%			($58,800)	($9,408,000)	($58,800)	($9,408,000)
4.70%					($57,575)	($9,212,000)
4.60%						
4.50%						

Revenue Loss by Year

	Tax Year (Fiscal Year)			
Tax Rate	2026 (FY27)		2027 (FY 28)	
	Low	High	Low	High
4.95%	($60,638)	($9,702,000)	($60,638)	($9,702,000)
4.80%	($58,800)	($9,408,000)	($58,800)	($9,408,000)
4.70%	($57,575)	($9,212,000)	($57,575)	($9,212,000)
4.60%	($56,350)	($9,016,000)	($56,350)	($9,016,000)
4.50%			($55,125)	($8,820,000)

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 systems. 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 famer 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. The fiscal note reflects the assumptions that the SB 3 (2022) reductions are triggered consecutively

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

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
Costs – DOR - §143.121 Form and Computer Upgrades p. (6)	($17,193)	$0	$0
Revenue Reduction - §143.121 Beginning farmer subtraction p. (3-6)	($60,638 to $9,702,000)	($58,800 to $9,408,000)	($57,575 to $9,212,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($77,831 to $9,719,193)**	**($58,800 to $9,408,000)**	**($57,575 to $9,212,000)**

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
	$0	**$0**	**$0**

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

This bill authorizes an income tax exemption for:

(1) Capital gains of up to $500,000 per year received by a taxpayer who sells all or a portion of his or her farmland to a beginning farmer;
(2) Cash rent income of up to $25,000 per year received by a taxpayer who leases all or a portion of his or her farmland to a beginning farmer; and
(3) Income of up to $25,000 per year received from crop share arrangements with a beginning farmer on all or a portion of a taxpayers farmland

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

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March 3, 2023

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