SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. Senate Bill 478

PRINTER NO. 690

AMOUNT

See Fiscal Impact

FUND

General Fund

DATE INTRODUCED

March 26, 2019

PRIME SPONSOR

Senator Vogel

DESCRIPTION AND PURPOSE OF BILL

Senate Bill 478 amends the act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code of 1971, by adding a new Article XVIII-H entitled "Tax Credits Relating to Beginning Farmers."

The legislation provides that an owner of agricultural assets (i.e. existing farmers and landowners) may take a credit against the tax due under Article III of the Tax Reform Code (personal income tax) for the sale or rental of agricultural assets to a beginning farmer. The amount of the credit against the personal income tax of the owner of agricultural assets is calculated as follows:

1. Five percent of the lesser of the sale price or the fair market value of the agricultural asset, up to a maximum of $32,000; or
2. Ten percent of the gross rental income in each of the first, second and third years of a rental agreement, up to a maximum of $7,000 per year.

Senate Bill 478 limits the total amount of tax credits to no more than $5 million for the 2020 tax year and no more than $6 million in subsequent years. The legislation requires the Department of Community and Economic Development (DCED) to allocate tax credits on a first-come, first-served basis beginning on January 1 of each year, except that re-certifications for the second and third years of a rental agreement have first priority. The legislation contains provisions either preserving the tax credits or requiring repayment of the tax credits in instances where a rental agreement is terminated, depending upon the specific circumstances of the termination.

The legislation defines terms necessary to implement and administer the program. "Agricultural assets" are defined as agricultural land, livestock, facilities, buildings and machinery used for farming. The legislation defines a "beginning farmer" as an individual who:

1. Is a resident of this Commonwealth;
2. Is seeking entry, or has entered within the last ten years, into farming;
3. Intends to engage in farming on land situate in this Commonwealth;

4. Is not and whose spouse is not a family member of a partner, member, shareholder or trustee of the owner of agricultural assets from whom the individual seeks to purchase or rent agricultural assets;
5. Has a net worth that does not exceed $800,000, except that the net worth threshold is subject to an annual adjustment for inflation;
6. Provides the majority of the daily physical labor or management of a farm;
7. Has adequate farming experience or demonstrates knowledge in the type of farming for which the beginning farmer seeks assistance from DCED;
8. Demonstrates to DCED a profit potential by submitting projected earnings statements;
9. Asserts that farming will be a significant source of income for the beginning farmer;
10. Agrees to notify DCED if the beginning farmer no longer meets the eligibility requirements within the three-year certification period;
11. Is not engaged in farming by means of a joint business venture; and
12. Has other qualifications as specified by DCED.

Senate Bill 478 makes the tax credits available to an “owner of agricultural assets”, which is defined as an individual, trust or pass-through entity that is the owner in fee of agricultural land or has legal title to any other agricultural asset. The term does not include an equipment dealer, livestock dealer or comparable entity that is engaged in the business of selling agricultural assets for profit and that is not engaged in farming as its primary business activity.

The legislation provides that tax credits are limited to the tax liability of an owner of agricultural assets, and the tax credit may not be carried over or assigned. Tax credits may be claimed only after approval and certification by DCED.

No later than February 1, 2025, the legislation requires DCED, in consultation with the Department of Revenue, to provide a report to the General Assembly on the tax credits issued containing information such as the effect of the tax credits on increasing opportunities for and the number of beginning farmers, the number and amount of tax credits issued, the geographic distribution of tax credits and data on the number of beginning farmers by geographic region in the years covered by the report.

This act shall take effect in 60 days.

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FISCAL IMPACT:

Senate Bill 478 establishes a beginning farmer tax credit program to encourage existing farmers and landowners to work with beginning farmers to help them get their start in agriculture. Tax credits against the personal income tax are limited to no more than $5 million for taxable years beginning after December 31, 2019 and no more than $6 million for taxable years beginning after December 31, 2020. Assuming that taxpayers receiving a tax credit will first apply the credits to their 2020 tax liabilities when returns are filed in 2021, the legislation will have no fiscal impact in fiscal year 2019-20. The fiscal impact in fiscal year 2020-21 is estimated at $5 million, and the impact is estimated at $6 million per year for subsequent fiscal years.

The legislation provides that tax credits authorized but not allocated in any taxable year do not cancel and are added to the allocation for the next taxable year. This provision could result in situations where the fiscal impact in a given fiscal year exceeds the annual cap; however, this scenario would occur only if tax credits were less than the annual cap in a preceding year or years.

The Department of Community and Economic Development indicates that the beginning farmer tax credit program will require the hiring of one additional employee as an Economic Development Analyst 1. Salary and benefits for the position are estimated to cost $92,300, and associated operating costs are projected at $7,710. The total cost for administration of the program would be $100,010 per year, subject to normal growth in personnel costs for future years.