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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research and Drafting

Legislative Budget Office

H.B. 183
133rd General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 183's Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Manchester and Patterson

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.
- An estimated 27,000 taxpayers could potentially claim a credit.
- Revenue losses are uncertain, due to data limitations, but plausible illustrative scenarios yield losses up to hundreds of millions of dollars.

Detailed Analysis

Summary of fiscal effects

The potential costs of the bill range to 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 a beginning farmer claim a credit against the farmer's state personal income taxes equal to the cost of participating in a financial management program approved by the Director of Agriculture. 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 participation 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 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 from the 2012 Census of Agriculture. The data indicate that 16,882 Ohio farms had a principal operator who had been on that farm for ten or fewer years. In addition, over half of these farms had two or more operators. A total of 27,214 farm operators were on farms for which the principal operators' years on the present farm were ten or fewer. However, some of these persons had more than ten years total experience operating farms, including time previously operating farms other than the present farm. How many farm operators had ten or fewer total years operating farms could not be determined from the published data.

If we assume that about 27,000 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 $27 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.

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 H.B. 183 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 27,000 Ohio beginning farmers, $4,500 of tax credits would imply a tax revenue loss to this state totaling up to $121.5 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 2017. The market value of CAUV land in that year averaged $4,387 per acre. At this price, the land in a hypothetical 160-acre farm would be worth more than $700,000, implying that the 5% credit in the bill would be valued at more than $35,000. If even

a substantial portion of the assumed 27,000 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 27,000 assumed beginning farmers, the state's tax revenue loss could range to nearly $200 million for cropland and more than $32 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 (Fund 7069) and the Public Library Fund (Fund 7065) would be reduced by 1.66% of that revenue loss under codified law. The Public Library Fund in FY 2019 instead would be reduced by 1.68% of a GRF tax revenue loss under a provision of H.B. 49 of the 132nd General Assembly, and in the upcoming biennium would be reduced by this same percentage of GRF tax revenue under a provision of H.B. 166 of the 133rd General Assembly. The GRF would bear the rest of the revenue loss.

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