OHIO LEGISLATIVE SERVICE COMMISSION

www.lsc.ohio.gov

Office of Research and Drafting

Legislative Budget Office

H.B. 95
134th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 95's Bill Analysis

Version: As Passed by the House

Primary Sponsors: Reps. Manchester and Lightbody

Local Impact Statement Procedure Required: Yes

Philip A. Cummins, Senior Economist

Highlights

- Providing nonrefundable income tax credits that could be claimed by (1) persons who intend to farm or began farming within the last ten years for the cost of participation in an approved financial management program and by (2) owners of agricultural property sold or rented to these newer farmers would reduce state income tax revenue.
- State revenue losses are limited by the bill to a total of $10 million. Tax credit certificates could be issued by the Director of Agriculture through 2026, if the bill goes into effect this year. Credits would be nonrefundable but could be carried forward.
- The GRF would bear most of the loss. Revenue to the Local Government Fund (LGF, Fund 7069) and Public Library Fund (PLF, Fund 7065) would each be reduced by 1.66% of the revenue loss under codified law.
- The Department of Agriculture would likely need to hire at least one new program administrator to oversee the new tax credit.
- The Ohio State University and Central State University may incur additional administrative costs to certify individuals as beginning farmers for purposes of qualifying an individual for the tax credit; any such costs would be permissive.

Detailed Analysis

Overview of the beginning farmer income tax credit

The bill allows a beginning farmer to be issued a tax credit certificate against the farmer's state personal income taxes equal to the cost of participating in an approved financial management program. It also would allow an owner of agricultural assets who sells or rents the assets to a beginning farmer to be issued a tax credit certificate. The credit must be claimed in the year that the certificate is issued. The bill limits issuance of tax credit certificates under this program to a total of $10 million over the five full calendar years following the bill's effective date. Requirements for beginning farmers and for agricultural asset owners are summarized in the bill analysis. An individual previously certified as a beginning farmer would no longer be considered for the program if that person ceases to meet the criteria for certification.

The Department of Agriculture and land grant colleges that elect to participate may incur additional administrative costs to certify an individual as a beginning farmer under the requirements prescribed by the bill. Eligible land grant colleges are the Ohio State University and Central State University. A beginning farmer may also be someone who has received substantially equivalent certification from the U.S. Department of Agriculture. The Department, in consultation with the participating colleges, is required to establish procedures for certifying financial management programs that would qualify a beginning farmer for the tax credit. The Department is to maintain a list of certified programs on its website.

Under the bill, the credit for the farmer would be nonrefundable but could be carried forward up to three years.[1] The owner of agricultural assets who sells or rents to a beginning farmer would be issued a tax credit certificate against the owner's state personal income taxes equal to (1) 5% of the sale price of the asset, (2) 10% of the cash equivalent of the gross rental income of a rental agreement entered into on or after the first day of the second preceding calendar year, or (3) 15% of the cash equivalent of the gross rental income of a share-rent agreement entered into on or after the first day of the second preceding calendar year. The credit for the asset owner would be nonrefundable but could be carried forward up to 15 years.

Fiscal effect of the new income tax credit

The tax revenue loss from the bill is capped at $10 million, the limit on issuance of tax credit certificates under this program. If the bill is enacted and goes into effect this year, the credits could be issued in the five full calendar years 2022 through 2026. No new tax credit certificates could be issued after that. Potential demand for such certificates appears substantial, and plausibly most or all of the $10 million maximum amount of certificates would be issued.

The nonrefundable credit is to be claimed for the tax year in which the certificate is issued. Revenue losses could begin as soon as FY 2022, if recipients of tax credit certificates in the first half of calendar year 2022 respond by reducing their estimated tax payments. With three-year carryforward for farmers and 15-year carryforward for asset owners, state income tax revenue might be reduced through FY 2037. If the bill's effective date is not until after January 1, 2022, all of these dates would be shifted later by one year.

For GRF revenue foregone, distributions to each of the Local Government Fund and Public Library Fund (PLF) would be reduced by 1.66% of that revenue loss under codified law; during FY 2022 and FY 2023, the PLF would bear 1.7% of any reduction in GRF tax revenue under an

[1] The amount of a nonrefundable credit that a taxpayer may claim is limited to the amount of his or her tax liability before consideration of the credit. If there are unused amounts because the taxpayer's liability is less than the total credit for which he or she is eligible, the taxpayer may carry forward the unused amount, meaning use it in a subsequent tax year.

uncodified provision of H.B. 110 of the 134th General Assembly. The GRF would bear the rest of the revenue loss.

Department of Agriculture and participating land grant universities

The Department of Agriculture would be responsible for approving applications and issuing tax credit certificates for the beginning farmer income tax credit and approving financial management programs that beginning farmers must take in order to qualify for the tax credit. The Department anticipates that it would need to hire at least one new program administrator to oversee the new tax credit. Based on the state's employee classification plan, if a program administrator is hired at the starting annual salary of approximately $45,000, it will bring the Department's potential payroll costs to between approximately $60,500 and $76,800. This includes $6,300 (14% of annual salary to cover the employer's share of retirement) and the employer's share of health insurance ($9,200 for single coverage or $25,500 for family coverage under the state's traditional health plan). The state's annual health benefit costs would be slightly higher if the employee is enrolled in the state's high deductible health care plan.

As described above, the bill also allows participating land grant universities to certify beginning farmers for the tax credit under the bill. Consequently, the Ohio State University and Central State University could incur new administrative costs for overseeing the program if these universities choose to be involved with the program.

HB0095HP/lb