

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5982S.01I
 Bill No.: SB 17
 Subject: Tax Credits; Agriculture
 Type: Original
 Date: September 16, 2022

Bill Summary: This proposal modifies provisions relating to agricultural economic opportunities.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| FUND AFFECTED | FY 2023 | FY 2024 | FY 2025 |
| General Revenue Fund* | Up to (\$3,107,174) to (\$6,100,000) | Up to (\$3,107,174) to (\$6,100,000) | Up to (\$3,107,174) to (\$6,100,000) |
| Total Estimated Net Effect on General Revenue | Up to (\$3,107,174) to (\$6,100,000) | Up to (\$3,107,174) to (\$6,100,000) | Up to (\$3,107,174) to (\$6,100,000) |

*Oversight reflects a fiscal impact (loss of tax income) for those years past the current sunset date. Oversight also notes the fiscal impact estimates range from current average activity (or estimated activity) to the programs' annual caps.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|--------------------------------------------------------|------------|------------|------------|
| FUND AFFECTED | FY 2023 | FY 2024 | FY 2025 |
| | | | |
| 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 2023 | FY 2024 | FY 2025 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|-----------------------------------------------------------|----------------|----------------|----------------|
| FUND AFFECTED | FY 2023 | FY 2024 | FY 2025 |
| | | | |
| | | | |
| 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 2023 | FY 2024 | FY 2025 |
| | | | |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Section 348.436 Agricultural Product Utilization and New Generation Cooperative Tax Credits (Effective with Emergency Clause)

Officials from the **Department of Revenue (DOR)** assume:

This proposal extends the Agricultural Product Utilization Contributor tax credit program and the New Generation Cooperative Incentive tax credit program from December 31, 2021 to December 31, 2028.

These credits share a \$6 million annual cap. The cap is distributed to the New Generation Cooperative Incentive program first and the remaining unissued credits are disbursed then to the Agricultural Product Utilization Contributor program.

For informational purposes, the Department is showing the issuance and redemption of these credits over the last few years. Both these credits began in 1999.

Agricultural Product Utilization Credit

| Year | Authorized | Issued | Total Redeemed |
|---------------|------------------------|------------------------|------------------------|
| FY 2022 | \$0.00 | \$0.00 | \$305,376.33 |
| FY 2021 | \$146,500.00 | \$146,325.46 | \$654,873.01 |
| FY 2020 | \$190,000.00 | \$182,377.36 | \$2,713,522.64 |
| FY 2019 | \$195,000.00 | \$168,988.98 | \$2,278,431.86 |
| FY 2018 | \$4,068,190.27 | \$4,048,690.27 | \$2,785,905.52 |
| FY 2017 | \$3,247,845.84 | \$2,908,334.26 | \$2,638,868.14 |
| FY 2016 | \$2,513,350.09 | \$2,513,350.09 | \$1,553,332.97 |
| FY 2015 | \$2,376,167.67 | \$2,376,167.67 | \$1,051,661.96 |
| FY 2014 | \$1,573,719.77 | \$1,573,719.77 | \$2,022,953.37 |
| FY 2013 | \$1,062,510.26 | \$1,062,510.26 | \$1,267,239.12 |
| FY 2012 | \$2,479,356.45 | \$2,479,356.45 | \$1,468,155.74 |
| TOTALS | \$17,852,640.35 | \$17,459,820.57 | \$18,740,320.66 |

New Generation Cooperative Credit

| Year | Authorized | Issued | Total Redeemed |
|---------------|-----------------|-----------------|-----------------|
| FY 2022 | \$3,000,000.00 | \$2,322,480.13 | \$2,274,059.00 |
| FY 2021 | \$12,650,000.00 | \$3,406,311.34 | \$462,260.73 |
| FY 2020 | \$1,500,000.00 | \$360,000.00 | \$467,167.83 |
| FY 2019 | \$3,153,843.50 | \$0.00 | \$839,615.09 |
| FY 2018 | \$2,011,156.50 | \$1,931,717.01 | \$1,431,010.11 |
| FY 2017 | \$1,873,475.00 | \$2,383,129.06 | \$2,093,123.93 |
| FY 2016 | \$1,481,529.00 | \$1,278,144.64 | \$1,730,341.67 |
| FY 2015 | \$7,938,220.00 | \$2,112,545.32 | \$2,842,869.70 |
| FY 2014 | \$4,267,500.00 | \$4,426,280.23 | \$4,747,229.63 |
| FY 2013 | \$5,612,982.00 | \$4,937,489.74 | \$2,100,091.11 |
| FY 2012 | -\$652,500.00 | \$2,023,500.00 | \$826,952.82 |
| TOTALS | \$42,836,206.00 | \$25,181,597.47 | \$19,814,721.62 |

This proposal would require that DOR re-implement and/or continue to conduct its processes pertaining to these tax credits indefinitely. For example, DOR would need to accept certifications of assignment of the tax credits, and conduct certain post-issuance compliance functions regarding Tax Credit Accountability Act reports required in connection with the tax credits (see, e.g., Section 135.800, RSMo).

Since DOR has forms and computer programs set up to handle these credits they do not believe this would have any additional administrative impact. However, the restarting of this credit could result in a loss to general revenue and total state revenue of Up to the \$6 million annual cap starting on October 1, 2022 (FY 2023).

Officials from the **Office of Administration (B&P)** assume:

The authorization for the Agricultural Product Utilization Contributor Tax Credit and the New Generation Cooperative Incentive Tax Credit ended on December 31, 2021. These credits share a \$6 million annual cap. This provision would restart the Agricultural Product Utilization Contributor Tax Credit, as authorized under Section 348.430 and the New Generation Cooperative Incentive Tax Credit, as authorized under Section 348.432. This provision would also extend the sunset for both the Agriculture Product Utilization and New Generation tax credit programs through December 2028.

Agricultural Product Utilization Contributor Tax Credit: a contributor who contributes fund to the Missouri Agriculture and Small Business Development Authority.

New Generation Cooperative Incentive Tax Credit: any producer member (a person, partnership, corporation, trust or limited liability company whose main purpose is agricultural production that invests cash funds to an eligible new generation cooperative or eligible new generation processing entity) who invests cash funds in an eligible new generation cooperative or eligible new generation processing entity.

The average annual redemption from FY 2019 to FY 2021 were as follows:

- \$1,882,276 Agricultural Product Utilization Contributor Tax Credit
- \$ 590,015 New Generation Cooperative Incentive Tax Credit
- \$2,472,291 3-year average annual redemption combined

B&P notes that this section would be impacted by the emergency clause. This proposal could reduce general and total state revenue between (\$2,472,291) and (\$6,000,000) annually beginning in FY23.

Officials from the **Department of Commerce and Insurance** assume a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2023, FY2024 and FY2025 as a result of the modification of the Agriculture Product Utilization Contributor and New Generation Cooperative Incentive tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year and which insurers will qualify for the modified tax credits.

Oversight notes this proposed legislation extends the expiration date for the Agricultural Product Utilization Contributor Tax Credit, as authorized under Section 348.430 and the New Generation Cooperative Incentive Tax Credit, as authorized under Section 348.432.

Oversight further notes, the aggregate amount of tax credits issued per fiscal year under Section(s) 348.430 and 348.432 shall not exceed six million dollars (\$6,000,000). In May of each year, the Missouri Agricultural and Small Business Development Authority determines whether six million dollars (\$6,000,000) will be utilized as New Generation Cooperative Incentive Tax Credits or not. The amount of New Generation Cooperative Incentive Tax Credit(s) that are determined to be unused may be sold as Agricultural Product Utilization Contributor Tax Credits.

Oversight's policy is to show the extension of the tax credit program(s) in the fiscal note. Oversight notes the current expiration date for the Agricultural Utilization Product Contributor Tax Credit and the New Generation Cooperative Incentive Tax Credit is December 31, 2021. Oversight notes this proposed legislation extends the expiration date to December 31, 2028. Oversight notes that taxpayers who are awarded the Agricultural Product Utilization Contributor Tax Credit or the New Generation Cooperative Incentive Tax Credit in Tax Year 2022 will not

file their tax returns claiming the tax credit until after January 1, 2023 (Fiscal Year 2023). Therefore, **Oversight** will report the impact as a result of extending the end date of this tax credit program beginning in Fiscal Year 2023.

Oversight notes the five (5) year average (Fiscal Year(s) 2017 – 2021) amount of Agricultural Product Utilization Contributor Tax Credit(s) issued equals \$1,490,943.

Oversight notes the five (5) year average (Fiscal Year(s) 2017 – 2021) amount of New Generation Cooperative Incentive Tax Credit(s) issued equals \$1,616,231.

Therefore, for purposes of this fiscal note, **Oversight** will report the extension of these tax credits as a reduction to GR by an amount “up to” \$3,107,174 (the combined five (5) year average amount of tax credits issued (\$1,490,943 + \$1,616,231)) to the shared cap of \$6,000,000, beginning in Fiscal Year 2023.

Section 348.500 – Family Farms Act

Officials from the **Department of Revenue (DOR)** assume the Section 348.500.2 outlines the definitions and qualifications for participation in the Family Farm Breeding Livestock tax credit program. Previously the definition of “small farmer” required a farmer to have less than \$250,000 in gross sales annually. This proposal is increasing the gross sales limit to \$500,000. Increasing the limit may result in more farmers being able to qualify for the tax credit program.

Section 348.500.4 removes the restriction that a small farmer can only be eligible for one loan per family and per type of livestock. Removing this restriction may also increase the number of tax credits a farmer may receive and could increase the participation in the program of additional farmers.

Section 348.500.5 increases the loan amount for each type of livestock. This may result in larger loans that would qualify for the tax credits. This could also increase the participation in the program by additional farmers.

| Livestock Type | Current Maximum Loan | Amended Maximum Loan |
|-----------------|----------------------|----------------------|
| Beef cattle | \$75,000 | \$150,000 |
| Dairy cattle | \$75,000 | \$150,000 |
| Swine | \$35,000 | \$70,000 |
| Sheep and goats | \$30,000 | \$60,000 |

This tax credit program currently has a \$300,000 annual cap. The annual cap on this program is not changed by this proposal. So while these changes may result in more credits being eligible to be claimed, the Department assumes this will not result in additional fiscal impact to the State.

For informational purposes, the Department is providing the amount of credits that have been authorized, issued and redeemed, the last few years.

| Year | Authorized | Issued | Total Redeemed |
|---------------|---------------------|---------------------|---------------------|
| FY 2022 | \$16,936.36 | \$16,334.26 | \$24,021.17 |
| FY 2021 | \$12,488.50 | \$2,429.88 | \$18,232.07 |
| FY 2020 | \$26,849.87 | \$16,817.30 | \$9,636.08 |
| FY 2019 | \$14,898.18 | \$39,235.88 | \$34,022.54 |
| FY 2018 | \$42,093.03 | \$52,507.91 | \$106,558.44 |
| FY 2017 | \$66,801.60 | \$70,892.19 | \$27,178.36 |
| FY 2016 | \$72,855.33 | \$48,967.77 | \$35,495.50 |
| FY 2015 | \$40,506.00 | \$39,309.78 | \$24,981.60 |
| FY 2014 | \$39,423.64 | \$34,251.88 | \$22,770.02 |
| FY 2013 | \$39,732.39 | \$35,044.24 | \$32,032.50 |
| FY 2012 | \$31,328.73 | \$32,228.75 | \$53,947.47 |
| TOTALS | \$403,913.63 | \$388,019.84 | \$388,875.75 |

The Department does not estimate any administrative fiscal impact from this provision.

Officials from the **Office of Administration (B&P)** assume this proposal would increase the number of famers that would qualify for family farm breeding livestock loans. This provision would also increase the amount of loans that could be taken by farms, depending on the type of livestock.

B&P notes that the family farm tax credit is granted to lenders for interest forgone during the first year of a family farm breeding livestock loan. Therefore, this proposal could increase the number and dollar amount of loans granted, which in turn would increase the amount of interest eligible for the tax credit. B&P further notes that this proposal does not change the \$300,000 annual issuance cap on the tax credit program, but it could increase the utilization of the loan program and tax credit. The three-year average issuance amount is \$26,754 (FY19 – FY21). B&P notes that this section would be impacted by the emergency clause. Therefore, this proposal could increase annual issuances, decreasing GR and TSR, by up to (\$273,246) beginning in FY23.

Officials from the DOR assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for DOR for this section.

Oversight notes, according to the Tax Credit Analysis form, the Family Farms Act provides Missouri tax credits to lenders in lieu of the first year interest being paid on breeding livestock loans made to “small farmers” who are Missouri residents and who have less than \$250,000 in gross agricultural product sales per year. The maximum eligible loan cannot exceed 90% of the cost of purchasing breeding livestock. Each small farmer shall be eligible for only one family farm livestock loan per immediate household family and only one type of livestock. The maximum amount of loan for each type of livestock is: Beef or Dairy cattle \$75,000; Sheep or Goats \$30,000; Swine \$35,000.

Oversight notes the following certificates and amounts have been issued (from Missouri Department of Agriculture via e-mail) for the Family Farm Breeding Livestock Loan Program:

| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| Certificates Issued | 29 | 22 | 15 | 11 | 9 |
| Amount Issued | \$70,892 | \$52,508 | \$39,236 | \$16,817 | \$12,449 |

Oversight notes this proposal expands eligibility to farmers with less than \$500,000 (from \$250,000) in gross agricultural product sales per year, which could expand the program and increase the number of projects that qualify. The program has a \$300,000 annual cap, and Oversight assumes this proposal may increase the number of projects that qualify for the credits; however, Oversight assumes the increase will not be by a substantial amount. Therefore, **Oversight** will reflect a cost of “Less than \$100,000” to the General Revenue Fund for the Family Farm Breeding Tax Credit beginning in Fiscal Year 2023.

Officials from the **City of Claycomo**, the **City of Kansas City**, the **City of O’Fallon**, and the **City of Springfield** each assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

| <u>FISCAL IMPACT – State Government</u> | FY 2023 (10 Mo.) | FY 2024 | FY 2025 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|
| GENERAL REVENUE FUND | | | |
| <u>Revenue Reduction – Section 348.436 – Extension of Expiration Date For Agricultural Product Utility Contributor & New Generation Cooperative tax credits – p.3 -6</u> | Up to (\$3,107,174) to (\$6,000,000) | Up to (\$3,107,174) to (\$6,000,000) | Up to (\$3,107,174) to (\$6,000,000) |
| <u>Cost - Section 348.500 - Increase in issuance of tax credits for the Family Farm Breeding Livestock tax credit program – p.6-8</u> | <u>(Less than \$100,000)</u> | <u>(Less than \$100,000)</u> | <u>(Less than \$100,000)</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>Up to (\$3,107,174) to (\$6,100,000)</u> | <u>Up to (\$3,107,174) to (\$6,100,000)</u> | <u>Up to (\$3,107,174) to (\$6,100,000)</u> |

| <u>FISCAL IMPACT – Local Government</u> | FY 2023 (10 Mo.) | FY 2024 | FY 2025 |
|---------------------------------------------|---------------------|-------------------|-------------------|
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| | | | |
| | | | |

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that qualifies for the various tax credits under the proposal.

FISCAL DESCRIPTION

This bill modifies the provisions relating to agricultural economic opportunities.

AGRICULTURAL PRODUCTION TAX CREDITS

Tax credits for contributions to the Missouri Agriculture and Small Business Development Authority and investments in new generation cooperatives for the purpose of development of agricultural business expired on December 31, 2021. This act extends such tax credits until December 31, 2028. (Section 348.436)

FAMILY FARMS ACT

In current law, "small farmer" is defined in the Family Farms Act as a farmer who is a Missouri resident and who has less than \$250,000 in gross sales per year. This act changes the amount of gross sales to less than \$500,000 per year.

The act repeals a provision that each small farmer is eligible for only one family farm livestock loan per family and for only one type of livestock.

Additionally, the maximum amount of the family farm livestock loan for each type of livestock under the act is as follows:

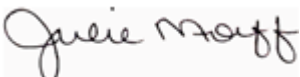
- Beef cattle: \$150,000
- Dairy cattle: \$150,000
- Swine: \$70,000; and
- Sheep & goats: \$60,000

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space. (Section 348.500)

This act contains an emergency clause.

SOURCES OF INFORMATION

Office of Administration
Department of Revenue
City of Claycomo
City of Kansas City
City of O'Fallon
City of Springfield



Julie Morff
Director
September 16, 2022



Ross Strobe
Assistant Director
September 16, 2022