Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 697 (Substitute S-1 as reported)
Sponsor: Senator Kimberly LaSata
Committee: Finance

CONTENT

The bill would amend Part 1 of the Income Tax Act to do the following:

-- Allow a taxpayer who was an owner of agricultural assets to claim a credit against the individual income tax for the sale or rental of agricultural assets to a beginning farmer.
-- Specify that a credit for rental income would have to be calculated based only on the rental income received or accrued during the tax year for which the credit was claimed.
-- Prohibit a taxpayer from claiming the credit unless the Department of Treasury, in consultation with the Michigan Department of Agriculture and Rural Development (MDARD), issued a certificate to the taxpayer and prescribe the information that would have to be included in a certificate.
-- Prohibit the Department, in consultation with MDARD, from issuing a credit after December 31, 2026.
-- Specify that the credit would be nonrefundable but could be carried forward to offset a subsequent year's tax liability for up to five years or until it was used up, whichever occurred first.
-- Require, beginning February 1, 2024, and each February thereafter through the first year in which no certificates were issued, the Department, in consultation with MDARD, to submit an annual report to the Legislature concerning the operation and effectiveness of the beginning farmer credit.

Proposed MCL 206.279 Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bill would reduce State General Fund revenue in fiscal year (FY) 2022-23 through FY 2027-28 by an average of approximately $5.0 million per year, although the bill's carry-forward would result in some revenue reductions occurring through FY 2032-33. Based on the experience of other states with similar credits, approximately 50-60% of the credits are fully claimed in the first year, and within three years more than 80% of the credits are claimed. As a result, total credits claimed during FY 2022-23 likely would be less than $5.0 million, and credits likely would be claimed through FY 2032-33. Because the $5.0 million limit would apply to the value of credits awarded during a fiscal year and not the amount, inclusive of carry-forwards, that can be claimed on tax returns, it is possible that from FY 2023-24 through FY 2026-27 (the last fiscal year in which a credit could be awarded), the revenue reduction in any given year would exceed $5.0 million per year.

Based on the experience of other states with similar credits, a single asset-owning taxpayer could claim multiple credits from multiple eligible transactions. Unlike some other state programs, the bill would not place any limit on the amount of credits an individual taxpayer could claim, nor would it prevent a taxpayer from claiming multiple credits from different individual transactions with the same beginning farmer.

Tax credits under the bill would be available only to existing owners of agricultural assets. The bill would not provide tax credits to beginning farmers who purchased or entered into rental, lease, or share rent agreements with the owner of an agricultural asset.

Date Completed: 3-8-22 Fiscal Analyst: David Zin