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LB 1027

Revision: 02

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

Revised based upon amendments adopted on Select File.

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *

	FY 2008-09		FY 2009-10	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	52,700	(101,600)	51,200	(362,500)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	52,700	(101,600)	51,200	(362,500)

*Does not include any impact on political subdivisions. See narrative for political subdivision estimates.

LB 1027 as amended would revise sections of law regarding the Beginning Farmer Tax Credit Act and would create a property tax exemption for individuals certified as Beginning Farmers. The fiscal impact of LB 1027 would include the following:

Expansion of Beginning Farmer Tax Credit Program eligibility -- Current law provides that owners of agricultural assets must have derived at least 50% of their gross annual income from farming or livestock production and provided a majority of the day-to-day physical labor and management of the farm. Under LB 1027, these provisions would be removed and corporations, limited liability companies and other business entitles having an ownership interest in an agricultural asset located in Nebraska would qualify under the program as an owner of agricultural assets. Rental agreements with a beginning farmer who is a relative would be allowed if a written succession plan is in place. The revisions contained in LB 1027 would become effective for tax year 2008.

Under the existing eligibility guidelines, annual property owner participation has ranged from 21 to 47 individuals. It is estimated that the expanded program guidelines could significantly increase the number of property owners eligible to participate. The impact to the General Fund will depend upon how many eligible property owners locate an eligible beginning farmer to partner with them and participate in the program. The Department of Revenue data indicates that 600 to 700 individuals start farming operations annually in Nebraska and that 20 to 25% of the beginning farmers may have a net worth no more than $200,000, a requirement to participate in the program. As a result, up to 150 beginning farmers could be eligible to partner with an eligible property owner.

The actual impact to General Fund revenue will depend upon the number of individuals who apply for and qualify to receive the credit and the amount of rental agreements that are used to determine the amount of tax credits. Average tax credits received by property owners under the program have ranged from $2,419 (2001) to $959 (2006). Based upon the average tax credits, and assuming that 150 new applicants could qualify for the program, there is no basis to disagree with the Department of Revenue estimates regarding the potential revenue loss as a result of LB 1027:

FY08-09 – ($101,600)
FY09-10 – ($362,500)
FY10-11 – ($714,200)

If program participation does not develop as rapidly as anticipated, the amount of General Fund revenue loss will be lower than what is listed above.

Exemption of taxable agricultural and horticultural machinery and equipment – LB 1027 would allow individuals who receive certification as beginning farmers from the Beginning Farmer Board to apply for an exemption of taxable agricultural and horticultural machinery and equipment from personal property tax. Exemptions could not exceed $100,000 per year and would continue for three years. Because individuals must have a net worth of no more than $200,000 to be eligible for designation as a beginning farmer, it is estimated that the number of individuals eligible to receive the credit, and the value of property that could be exempted, would somewhat restrict the potential fiscal impact to counties.

Based upon the past participation levels in the Beginning Farmer program, the total revenue loss to counties on a statewide basis could total the following:

FY08-09: ($ 40,000)
FY09-10: ($ 80,000)
FY10-11: ($120,000)

However, because beginning farmers who are not participating with a property owner in the tax credit program could apply to be certified as a beginning farmer and receive tax exemptions on agricultural machinery, there is a potential of higher participation in this component of the program. Assuming a higher program participation level, statewide revenue loss to counties could total:

FY08-09: ($150,000)
FY09-10: ($300,000)
FY10-11: ($450,000)

The actual amount of revenue loss on a county-by-county basis will depend upon the location of the beginning farmers, how many individuals apply for and receive certification to apply for personal property tax exemptions, and the value of the inventory that they seek to exempt.

Department of Agriculture expenses -- The existing staffing and funding for the Beginning Farmer Tax Credit Program totals .05 FTE and approximately $7,000 in General Funds. Because it is anticipated that the number of applications to the program could increase from under 50 to over 300, the agency estimates that it will require 1 FTE program assistant to process applications and respond to inquiries regarding the program. In addition, it is estimated that the number of Beginning Farmer Board meetings will increase from 2 to 4 per year. There is no basis to disagree with the agency estimate of $52,700 in General Fund costs in FY08-09 and $51,200 in General Fund costs in FY09-10.