

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5738S.01I
 Bill No.: SB 1157
 Subject: Agriculture; Food; Tax Credits; Trees and other Plants
 Type: Original
 Date: March 28, 2022

Bill Summary: This proposal creates provisions relating to speciality agricultural crops.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund*	Up to (\$300,000)	Up to (\$300,000)	Up to (\$300,000)
Total Estimated Net Effect on General Revenue	Up to (\$300,000)	Up to (\$300,000)	Up to (\$300,000)

*Oversight notes the cap for the Specialty Agricultural Crops program, as specified by Section 348.493.2. is \$300,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Department of Agriculture Development Fund	Up to \$61,950	Up to \$61,950	Up to \$61,950
Total Estimated Net Effect on <u>Other</u> State Funds	Up to \$61,950	Up to \$61,950	Up to \$61,950

*Oversight notes the potential revenue gain stems from the 1% in applicable review fee, payable at the time of the approval to the lender for the MASBDA, as per Section 348.491. 8.

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

Officials from the **Office of Administration – B&P** note:

Section 348.491 – Specialty Agriculture Crops Act

The proposal would create the specialty agricultural crops loan program. A family farmer with less than \$100K in gross sales per year can apply for a loan up to \$35K for up to 90% of the anticipated cost of the purchase of specialty crop seeds, seedlings or trees and other supplies and equipment needed for producing specialty crops - fruits and vegetables, tree nuts, dried fruits, and horticulture and nursery crops including, but not limited to, floriculture. Each family farmer is limited to one loan per family. The farmer shall be not charged interest on the loan for the first year.

The program would be managed by the Missouri Agricultural and Small Business Development Authority (MASBDA), who may impose a one-time loan review fee of one percent, which shall be collected by the lender at the time of the loan and paid to the authority. These fees go directly to the authority, not the state treasury.

The total amount of loans is not restricted, however the lender tax credits proposed in Section 348.493 below are restricted to \$300K. According to MASBDA, agriculture loans are typically made at higher interest rates than a home mortgage or vehicle. They estimate interest rates for the loans associated with this program could be from 5% - 10%.

- 5% rate: The potential loans would be up to \$6M ($\$300,000 = .05x$; $x = 300,000/.05$) and potential fees would be up to \$60K ($\$6M \times 1\%$).
- 10% rate: The potential loans would be up to \$3M ($\$300,000 = .10x$; $x = 300,000/.10$) and potential fees would be up to \$30K ($\$3M \times 1\%$).

Therefore, the fees generated could range from \$0 to \$60,000 annually.

This provision could impact the calculation under Article X, Section 18(e) between (\$0) and (\$60,000) annually beginning in FY24.

Section 348.493 – Tax Credit

This would create a tax credit against a lenders income tax liability. The tax credit would be equal to 100% of the amount of interest waived by the lender in the first year of loans extended under the specialty agricultural crops loan program established in section 348.491 above. Tax credits issued in a fiscal year shall not exceed \$300K and may be claimed quarterly to apply to estimated quarterly tax. The credit shall not be refunded, but may be carried over for 3 years. It

may be assigned, transferred, sold or conveyed.

This provision could reduce general and total state revenue between (\$0) and (\$300,000) annually, beginning in FY24.

Oversight notes the B&P assume the proposal will have a direct fiscal impact to the General Revenue Fund. Oversight notes the proposal allow for up to \$300,000 lenders tax credit. Therefore, **Oversight** will reflect the B&P estimated impact to the GR in the fiscal note.

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

Section 348.491 Specialty Crops Act

This provision creates a loan program for farmers of the delineated crops listed in this provision. The Department is not a party to these loans and therefore this will not fiscally impact us.

Section 348.493 Specialty Crop Lender Tax Credit

This provision creates a tax credit for the lenders in the Specialty Crops Act. No start date is listed for the tax credit so it is assumed it will start August 28, 2022 (FY 2023). The tax credit is equal to 100% of the interest waived in the first year the loan is made. The lender must apply to the Missouri Agricultural and Small Business Development Authority for approval of the credit. Once approved they will receive a certificate that will need to be submitted with their tax return for the redemption of the tax credit.

This proposal limits the amount of all tax credits issued in a single year to \$300,000. While the credit cannot be refunded it is allowed to be carried forward three years or transferred or assigned.

The Department notes this will be a loss to general revenue of up to the \$300,000 cap annually.

This is a new tax credit that would need to be added to the MO-TC form. Programming updates, website updates and form updates are estimated to cost \$3,596.

The Department notes this proposal requires the taxpayer to present a certificate of tax credit to the Department when they redeem their credit. The proposal also indicates that the Department will note on the certificate the amount of credit redeemed and the date redeemed. It should be noted that tax credits issued by agencies are currently entered into the central tax credit system (CMS). The agency enters into CMS the date of issuance of the credit, the amount of credit and the contact information of the person that receives the tax credit. The Department upon receipt of a claim for the redemption of the credit, reviews the system to determine if the credit is being claimed by the correct person and they enter into the system the date of redemption and amount redeemed. The CMS system maintains the outstanding balance of all credits. It is assumed that since this system exists, the Department would use it instead of doing the manual marking

system requested by this proposal. Should the Department be required to process these tax credits differently than all the other credits this could result in additional unknown costs.

Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from the **Missouri Department of Agriculture (MDA)** assume the proposal will have no fiscal impact on their organization.

Oversight notes **MDA** provided further information, via e-mail, as follows:

The family farmer has to obtain approval for the specialty agricultural crop loan from the lender and the lender then submits the specialty agricultural crop tax credit application to Missouri Agricultural and Small Business Development Authority. MASBDA staff and commissioners would review and either approve or disapprove the application. During the review, MASBDA determines if the family farmer does qualify as farming specialty crop. If the application is approved, the family farmer would have their first year loan interest waved and at the anniversary of the first year, the lender is eligible to receive a tax credit up to the amount of the first year interest that was approved by MASBDA when the application was approved.

Oversight notes that according to the [U.S. Census of Agriculture - Missouri \(2017\)](#), data regarding Special Crops, there were 3,654 existing farms involved in cultivation of such a harvest. The breakdown is shown below:

- Vegetables – 1449
- Orchards – 1359
- Berries – 846
- Total – 3,654

Oversight notes the proposal limits this loan opportunity only to those farms with annual gross sales below \$100,000. According to the MDA website there are currently 95,000 farms in Missouri.

Oversight notes, using [U.S. Census of Agriculture \(2017\)](#) data for Missouri (see table 1), that there are currently about 81,851 farms who would potentially qualify for this program. The data regarding Special Crop Farms, above, does not specify the annual sales produced by each farm (above or below \$100,000). However, Oversight notes that using MDA and U.S. Census for Agriculture there could be potentially about 86% (81,851 / 95,000) of all Special Crop Farms (from 3,654) making below the \$100,000 limit. This would represent about 3,142 farms currently harvesting special crops and potentially eligible for the \$35,000 loan.

Table 1.

Range	Low	High	Total Farms in Missouri in \$100,000 range	Low	High
Less than \$ 100	\$ 100	\$ 999	17,281	\$ 1,728,100	\$ 17,281,000
\$1,000 to \$ 1,000	\$ 1,000	\$ 2,499	8,914	\$ 8,914,000	\$ 22,276,086
\$2,500 to \$ 2,500	\$ 2,500	\$ 4,999	9,754	\$ 24,385,000	\$ 48,760,246
\$5,000 to \$ 5,000	\$ 5,000	\$ 9,999	12,529	\$ 62,645,000	\$ 125,277,471
\$10,000 to \$ 10,000	\$ 10,000	\$ 24,999	14,949	\$ 149,490,000	\$ 373,710,051
\$25,000 to \$ 25,000	\$ 25,000	\$ 49,999	11,112	\$ 277,800,000	\$ 555,588,888
\$50,000 to \$ 50,000	\$ 50,000	\$ 99,999	7,312	\$ 365,600,000	\$ 731,192,688
Total			81,851	\$ 890,562,100	\$ 1,874,086,430

[U.S. Census of Agriculture - Missouri \(2017\)](#)

Oversight notes Section 348.491 allows for one time maximum loan of \$35,000 per such a farm. The lender is then required to forgive first year interest on such a loan.

Oversight notes that Section 348.491. 8. denotes: “The authority may impose one-time loan review fee of one percent, which shall be collected by the lender at the time of the loan and paid to the authority.” According to Missouri Agricultural and Small Business Development Authority (MASBDA), agriculture loans are typically made at higher interest rates than a home mortgage or vehicle. MASBDA estimate interest rates for the loans associated with this program could range from 5% to 10%. For informational purposes, **Oversight** will assume the maximum loan amount of \$35,000 is borrowed at 5% for 10 years. The simple amortization of the loan would show principle payment of \$1,687 to be forgiven in first year, per each borrower, as shown in Table 2. below:

Table 2.

Month	Beginning Balance	Interest	Principal	Ending Balance
1	\$35,000.00	\$145.83	\$225.40	\$34,774.60
2	\$34,774.60	\$144.89	\$226.34	\$34,548.27
3	\$34,548.27	\$143.95	\$227.28	\$34,320.99
4	\$34,320.99	\$143.00	\$228.23	\$34,092.77
5	\$34,092.77	\$142.05	\$229.18	\$33,863.59
6	\$33,863.59	\$141.10	\$230.13	\$33,633.46
7	\$33,633.46	\$140.14	\$231.09	\$33,402.37
8	\$33,402.37	\$139.18	\$232.05	\$33,170.32
9	\$33,170.32	\$138.21	\$233.02	\$32,937.30
10	\$32,937.30	\$137.24	\$233.99	\$32,703.31
11	\$32,703.31	\$136.26	\$234.97	\$32,468.34
12	\$32,468.34	\$135.28	\$235.95	\$32,232.40
First Year Interest Total	Year 1 end	\$1,687.13		

Oversight notes that the maximum tax credit allowable for lenders, under the proposal is \$300,000 annually. To cover the forgone interest maximum it would allow 177 (\$300,000 / \$1687) borrowers (family farms) to obtain this loan before the lenders begin to surpass the allowable maximum of \$300,000 in tax credits.

Therefore, **Oversight** will show the potential gain in revenue, from the collection of the 1% in fees to the MDA Fund, as up to higher amount of \$61,950 if the lender applies 5% interest for the loans (177 potential - borrowers x \$350 – 1% application fee).

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
<u>Cost – Section 348.493. 2. – Special Crop Lenders Tax Credit (p.4)</u>	<u>Up to (\$300,000)</u>	<u>Up to (\$300,000)</u>	<u>Up to (\$300,000)</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>Up to (\$300,000)</u>	<u>Up to (\$300,000)</u>	<u>Up to (\$300,000)</u>
MISSOURI DEPARTMENT OF AGRICULTURE DEVELOPMENT FUND			
<u>Revenue Gain – 1% Application review fee (p.7)</u>	<u>Up to \$61,950</u>	<u>Up to \$61,950</u>	<u>Up to \$61,950</u>
ESTIMATED NET EFFECT ON THE MISSOURI DEPARTMENT OF AGRICULTURE DEVELOPMENT FUND	<u>Up to \$61,950</u>	<u>Up to \$61,950</u>	<u>Up to \$61,950</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

Certain small agriculture businesses could be positively impacted by the proposal.

FISCAL DESCRIPTION

Under the act, the Missouri Agricultural and Small Business Development Authority (MASBDA) shall establish a specialty agricultural crops loan program for family farmers for purposes listed in the act.

To participate in the loan program, a family farmer, as defined in the act, shall first obtain approval for a specialty agricultural crops loan from a lender. Each family farmer is eligible for only one loan per family.

The maximum amount of the loan is \$35,000.

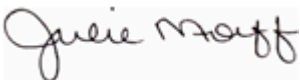
Eligible borrowers shall follow conditions set forth in the act.

Once a loan is approved by a lender, the loan shall be submitted to MASBDA for approval.

The program shall sunset on August 28, 2028.

SOURCES OF INFORMATION

Missouri Department of Agriculture
Department of Revenue
Office of Administration – Budget & Planning



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March 28, 2022



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Assistant Director
March 28, 2022