

BILL SUMMARY
2nd Session of the 57th Legislature

Bill No.:	HB 3294
Version:	INT
Request Number:	9090
Author:	Rep. Newton
Date:	2/16/2020
Impact:	Tax Commission:
	Revenue Decrease
	FY-21: \$0
	FY-22: (\$10,700,000)

Research Analysis

HB3294, as introduced, provides an income tax credit for qualified beginning farmers and ranchers, effective tax year 2021 through 2025. The credit is \$1000 for single filers and \$2000 for those filing a joint return. Qualified beginning farmers and ranchers must have filed a schedule F with the Internal Revenue Service and had gross revenues of under \$100,000 for the applicable tax year.

Prepared By: Quyen Do

Fiscal Analysis

Analysis provided by the Tax Commission:

HB 3294 proposes to enact a new non-refundable income tax credit of \$1,000 if the income tax return filing status is single or \$2,000 if the income tax return filing status is married filing joint² for beginning farmers effective for tax years 2021 through 2025. Unused credits may be carried over for 3 years.

In order to qualify as a beginning farmer, the person must derive at least 75% of their gross income from farming or ranching activities³ and be required to file a federal Schedule F⁴ for the year the credit is claimed but did not file a federal Schedule F for the year preceding the year the credit was claimed. If the farming or ranching operation was conducted by a business entity that could not file a federal Schedule F⁵, the partners or other equity owners may be eligible for the credit if they were actively engaged in the conduct and management of the farming or ranching operation and the business entity's gross revenues did not exceed \$100,000.

Further qualifications of a beginning farmer require holding title to the real property upon which the farming or ranching activity is conducted or owning 51% or more of the voting equity interest in a business entity which holds title to the farming or ranching property. Beneficiaries of an express private trust which hold title to the farming or ranching property would also be eligible for the credit.

The Oklahoma Individual Income Tax Micro Simulation Model was used to estimate the revenue impact of this proposal. This estimate is based on Form 511 Schedule F filers only. Data is not available as to how many farming or ranching operations may qualify for this credit but cannot file a federal Schedule F due to the type of the business entity of the operation, Estates and Trusts (IRS Form 1041) or Partnerships (IRS Form 1065).

Tax Commission data shows approximately 72,000 Oklahoma resident individual income tax returns were filed in 2016 and 2017 with a Schedule F. In 2016, 10,162 taxpayers filed a Schedule F who did not file a Schedule F in 2015, and in 2017, 14,127 taxpayers filed a Schedule F who did not file a Schedule F in 2016. For tax year 2021, it is estimated that income tax collections would decrease by at least \$10,700,000. No changes to withholding or estimated tax payments are anticipated so the impact should occur in FY22 when the tax year 2021 returns are filed.

² This measure does not address filing statuses that are also available such as married filing separate, head of household or surviving spouse. For purposes of this analysis, head of household and surviving spouse were allowed a credit of \$2,000; married filing separate were allow a credit of \$1,000.

³ Farming or ranching activities include the sale of crops (including, but not limited to, wheat, corn, rice, barley, sorghum, cotton, peanuts and similar commodities, but excluding marijuana or hemp or any plant that is unlawful to cultivate pursuant to either federal or state law or, if lawful to cultivate, does not violate federal or state requirements related to the quantity of the marijuana or hemp or other plant grown) or the raising of cattle, horses, sheep, goats, swine, poultry, fish or other livestock whether or not primarily for sale.

⁴ Schedule F is the form used by the Internal Revenue Service for purposes of reporting income from farming or ranching as required by the Internal Revenue Code of 1986.

⁵ Schedule F can only be filed with Form 1040 (Individuals), 1040-SR (Seniors), 1040-NR (Nonresident Alien), 1041 (Estates and Trusts), or 1065 (Partnership).

Prepared By: Mark Tygret

Other Considerations

None.