HB15-1234

Colorado Legislative Council Staff Fiscal Note

STATE and STATUTORY PUBLIC ENTITY FISCAL IMPACT

Drafting Number:	LLS 15-0656	**Date:**	March 6, 2015
Prime Sponsor(s):	Rep. Mitsch Bush Sen. Sonnenberg	**Bill Status:**	House Agriculture
		Fiscal Analyst:	Greg Sobetski (303-866-4105)

BILL TOPIC: INCOME TAX DEDUCTION FOR LEASING OUT AG ASSET

Fiscal Impact Summary*	FY 2015-2016	FY 2016-2017
State Revenue	**($36,686)**	**($75,385)**
General Fund	(36,686)	(75,385)
State Expenditures		**$27,624**
General Fund		27,624
TABOR Set-Aside	($36,686)	($75,385)
FTE Position Change		
Appropriation Required: None.		

* *This summary shows changes from current law under the bill for each fiscal year. Parentheses indicate a decrease in funds.*

Summary of Legislation

This bill creates an income tax deduction for individuals and C corporations that lease an agricultural asset, defined as land, crops, livestock, livestock facilities, farm equipment, grain storage, or irrigation equipment, to a beginning farmer or rancher satisfying certain qualifications. In order for the lessor to receive a deduction, the beginning farmer or rancher lessee must:

- live in Colorado;
- have a net worth of less than $1 million;
- be responsible for the majority of the labor on and management of the leased agricultural asset the majority of the time;
- have plans to farm or ranch full-time;
- have less than 10 years of experience in farming or ranching;
- have some prior farming or ranching experience or education; and
- participate in a financial management educational program approved by the Colorado Agricultural Development Authority (CADA), a statutory public entity.

The deduction is available for tax years 2016 through 2020 and is equal to 20 percent of the lease payment received from the beginning farmer or rancher for a lease of agricultural assets with a term of at least three years. Deductions are capped at $25,000 per taxpayer per tax year.

In order to claim a deduction, taxpayers must submit deduction certificates from the CADA when filing their state income tax return. The CADA is responsible for reviewing all applications and issuing deduction certificates, and must notify the Department of Revenue (DOR) of all deductions awarded by November 1 of each tax year for which the deduction is available.

State Revenue

General Fund revenue is expected to decrease by $36,686 in FY 2015-16 and $75,385 in FY 2016-17. The estimate for FY 2015-16 assumes a half-year impact for the income tax deduction, which is available beginning in tax year 2016.

Assumptions. According to agricultural census data for 2012, there were 2,451 farmers and ranchers working in Colorado who leased land, buildings, machinery, equipment, or livestock. Because approximately 30 percent of Colorado farmers and ranchers operating in 2012 reported less than 10 years of experience in the industry, 727 of the lessee farmers and ranchers are assumed to fall within the range of experience required for a lessor to claim the deduction in the bill.

This fiscal analysis assumes that approximately 230 lessors will claim the deduction each tax year, representing 0.65 percent of all Colorado farmers and ranchers. This percentage corresponds to the share of Iowa farmers for whom lessors claimed a tax credit with eligibility criteria similar to the deduction in this bill. The difference between the 230 claimants and the 727 eligible lessees is attributable to the additional eligibility requirements in the bill, including participation in a CADA-approved financial management education program.

For deduction claimants, state taxable income is assumed to be reduced by an average of $6,831 for tax year 2016, and by an average of $7,205 for tax year 2017. Leases are based on agricultural census data on tenant farm and ranch expenditures for leased agricultural assets in 2012 and grown annually by the producer price index for farm products. For 2015 and subsequent years, agricultural asset inflation is assumed to be 5.5 percent, the average rate between 2005 and 2014.

TABOR Impact

This bill decreases state revenue subject to TABOR, which will decrease the amount required to be refunded under TABOR by $36,686 for FY 2015-16 and $75,385 for FY 2016-17. TABOR refunds are paid from the General Fund.

State Expenditures

One-time General Fund expenditures will increase by $27,624 for FY 2016-17. Costs for FY 2015-16 are expected to be minimal and can be absorbed within existing appropriations. Expenditures are summarized in Table 1 and detailed on the following page.

Table 1. Expenditures Under HB15-1234

Cost Components	FY 2015-16	FY 2016-17
Software Programming	$0	$25,185
Document Management		2,439
TOTAL	**$0**	**$27,624**

Department of Revenue. The DOR will incur one-time expenditures for the programming of the deduction in its GenTax software system. Programming is expected to require 10 hours of analysis and design, 75 hours of development and coding, and 30 hours of testing and changes, for a total of 115 hours at a rate of $219 per hour.

Workload at the DOR for tax processing and questions related to the deduction is expected to increase once it becomes available. Based on the assumption that approximately 230 taxpayers will claim the deduction each year, this increase can be accommodated within existing resources.

Department of Personnel and Administration. The Department of Personnel and Administration (DPA) is responsible for document management for the DOR, including preparation, scanning, and shredding of documents and changes to forms. The new deduction will require the DPA to produce two forms at a cost of $1,200 each, and to process documents at an aggregate cost of $39 for FY 2016-17. Expenditures for this purpose are identified in the DOR's document management budget line item and will be reappropriated to the DPA.

Statutory Public Entity Impact

The CADA, a statutory public entity, will incur increased expenditures for reviewing deduction applications and issuing deduction certificates. Expenditures are expected to be paid from revenue generated from deduction application fees, which will be set by the CADA at a level sufficient to pay expenditures.

Effective Date

The bill takes effect August 5, 2015, if the General Assembly adjourns on May 6, 2015, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Agriculture	Agricultural Development Authority
Property Taxation	Revenue