



**Colorado  
Legislative  
Council  
Staff**

**HB16-1194**

**FISCAL NOTE**

**FISCAL IMPACT:**  State  Local  Statutory Public Entity  Conditional  No Fiscal Impact

**Drafting Number:** LLS 16-0529 **Date:** February 10, 2016  
**Prime Sponsor(s):** Rep. Mitsch Bush; Becker J. **Bill Status:** House Agriculture  
 Sen. Sonnenberg **Fiscal Analyst:** Greg Sobetski (303-866-4105)

**BILL TOPIC:** INCOME TAX DEDUCTION FOR LEASING OUT AG ASSET

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020
<b>State Revenue</b>	<b>(\$32,750)</b>	<b>(\$66,300)</b>	<b>(\$67,900)</b>	<b>(34,350)</b>
General Fund	(32,750)	(66,300)	(67,900)	(34,350)
<b>State Expenditures</b>		<b>\$36,281</b>		
General Fund		33,918		
Centrally Appropriated Costs		2,363		
<b>TABOR Impact</b>	(\$32,750)	(\$66,300)	not estimated	
<b>FTE Position Change</b>		0.2 FTE		
<b>Appropriation Required:</b> None.				

**Summary of Legislation**

This bill creates an income tax deduction for taxpayers 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 \$2 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 2017 through 2019 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.

When filing their state income tax return, taxpayers must submit a deduction certificate from the CADA and a copy of the lessee's IRS Schedule F indicating profit or loss from farming. The CADA is permitted to issue a maximum of 100 deduction certificates each tax year and must notify the Department of Revenue of all deductions awarded.

### **State Revenue**

State General Fund revenue is expected to decrease by \$32,750 in FY 2016-17, \$66,300 in FY 2017-18, \$67,900 in FY 2018-19, and \$34,350 in FY 2019-20. The estimates for FY 2016-17 and FY 2019-20 reflect half-year impacts.

**Assumptions.** According to the Colorado agricultural census for 2012, there were 2,451 farmers and ranchers 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. It is assumed that 100 lessors will claim the deduction each tax year, the maximum allowed in the bill.

For deduction claimants, state taxable income is assumed to be reduced by an average of \$14,146 for tax year 2017, and by an average of \$14,489 for tax year 2018. Leases are based on agricultural census data on tenant farm and ranch expenditures for leased agricultural assets in 2012 and grown annually by a historical average of the producer price index for farm products.

### **TABOR Impact**

This bill reduces state revenue from income taxes, which will reduce the amount of money required to be refunded under TABOR. TABOR refunds are paid out of the General Fund. Since the bill reduces both revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget. However, the bill will reduce money available for the General Fund budget in the future during years the state does not collect money above the TABOR limit.

### **State Expenditures**

One-time state General Fund expenditures will increase by \$36,281 and 0.2 FTE in FY 2017-18. Expenditures are summarized in Table 1 and detailed below.

<b>Table 1. Expenditures Under HB16-1194</b>		
<b>Cost Components</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
Personal Services	\$0	\$8,518
FTE		0.2 FTE
Computer Programming		23,000
Document Management		2,400
Centrally Appropriated Costs*		2,363
<b>TOTAL</b>	<b>\$0</b>	<b>\$36,281</b>

\* Centrally appropriated costs are not included in the bill's appropriation.

**Department of Revenue.** This bill requires changes to the department's GenTax software system. Changes are programmed by a contractor at a rate of \$200 per hour. The changes in this bill are expected to increase General Fund expenditures by \$23,000, representing 115 hours of programming. All GenTax programming changes are tested by department staff. Testing for this bill will require the addition of 0.2 FTE in the department's Taxpayer Service Division. Additionally, the bill requires changes to two tax forms. Costs for document management will be reappropriated to the Department of Personnel and Administration.

**Centrally appropriated costs.** Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 2.

<b>Cost Components</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$0	\$1,600
Supplemental Employee Retirement Payments		763
<b>TOTAL</b>	<b>\$0</b>	<b>\$2,363</b>

**Statutory Public Entity Impact**

The Colorado Agricultural Development Authority will incur increased expenditures for reviewing deduction applications, issuing deduction certificates, and advertising the program. 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 10, 2016, if the General Assembly adjourns on May 11, 2016, as scheduled, and no referendum petition is filed.

**State and Local Government Contacts**

Agriculture  
Information Technology

Agricultural Development Authority  
Revenue