



**Colorado  
Legislative  
Council  
Staff**

**HB16-1194**

**FINAL  
FISCAL NOTE**

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

**Drafting Number:** LLS 16-0529 **Date:** August 26, 2016  
**Prime Sponsor(s):** Rep. Mitsch Bush; Becker J. **Bill Status:** Signed into Law  
 Sen. Sonnenberg **Fiscal Analyst:** Greg Sobetski (303-866-4105)

**BILL TOPIC:** INCOME TAX DEDUCTION FOR LEASING OUT AN AGRICULTURAL ASSET

| <b>Fiscal Impact Summary</b>         | <b>FY 2016-2017</b>      | <b>FY 2017-2018</b>      | <b>FY 2018-2019</b>      | <b>FY 2019-2020</b>    |
|--------------------------------------|--------------------------|--------------------------|--------------------------|------------------------|
| <b>State Revenue</b>                 | <b><u>(\$32,750)</u></b> | <b><u>(\$66,300)</u></b> | <b><u>(\$67,900)</u></b> | <b><u>(34,350)</u></b> |
| General Fund                         | (32,750)                 | (66,300)                 | (67,900)                 | (34,350)               |
| <b>State Expenditures</b>            |                          | <b><u>\$33,077</u></b>   |                          |                        |
| General Fund                         |                          | 33,077                   |                          |                        |
| <b>TABOR Impact</b>                  |                          | (\$66,300)               | not estimated            |                        |
| <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 for FY 2017-18. 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.

The state is not expected to incur a TABOR refund obligation for FY 2016-17.

**State Expenditures**

This bill will increase state General Fund expenditures by \$33,077 in FY 2017-18 only. 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> |
| Computer Programming and Testing             |                   | \$30,677          |
| Document Management                          |                   | 2,400             |
| <b>TOTAL</b>                                 | <b>\$0</b>        | <b>\$33,077</b>   |

**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 expenditures for contract personnel totaling \$7,677, representing 320 hours of testing at a rate of \$24 per hour. Additionally, the bill requires changes to two tax forms. Costs for document management will be reappropriated to the Department of Personnel and Administration.

## **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 was signed into law by the Governor on June 8, 2016, and it became effective on August 10, 2016.

## **State and Local Government Contacts**

Agriculture

Information Technology

Revenue