

FISCAL NOTE

Bill #: SB245

Title: Montana farm and ranch risk management account

Primary

Sponsor: Ric Holden

Status: House Second Reading

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
Revenue:		
General Fund	\$0	\$(700,000)
Net Impact on General Fund Balance:	\$0	\$(700,000)

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached	X		Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. This proposal applies to tax years beginning after December 31, 2001 (TY2002).
2. Under this bill, an individual “engaged in an eligible agricultural business” would be allowed to make a deposit to a “Montana farm and ranch risk management account” in an amount not to exceed the smaller of 20% of the taxpayer’s net income attributable to agricultural business, or \$20,000. Contributions to the account may be excluded from adjusted gross income when determining taxes for the year for which the deposit is made. Contributions attributable to a given tax year may be made to an account within 3 ½ months following the end of the tax year.
3. Under the proposal, withdrawals from risk management accounts are taxable income; furthermore, any deposits to a risk management account not distributed within 5 years are considered to be distributed for tax purposes.
4. Based on an analysis of tax year 1999 individual income tax returns that reported positive net farm income and positive taxable income for individual income tax purposes, the department of revenue estimates that if every eligible farm used every dollar available and eligible for the exclusion of income under this bill, revenue to the general fund would be reduced by \$1.4 million annually. Because not all farmers will opt to

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use every eligible dollar in this fashion, this fiscal note assumes that revenues will be reduced annually by half of the individual income tax amount, or by \$700,000, beginning with fiscal 2003.

5. There could be an impact on corporation license tax collections from this bill. There are approximately 3,800 farms and ranches that file as regular corporations in Montana. It is not known how many of these are “family farm corporations” that would qualify for the exclusion. However, the impact from these farms is likely to be small.
6. There are no administrative impacts associated with this proposal.

FISCAL IMPACT:

	<u>FY2002</u> <u>Difference</u>	<u>FY2003</u> <u>Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$0	\$(700,000)
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	\$0	\$(700,000)

LONG-RANGE IMPACTS:

Passage of this bill will reduce individual income tax revenue beginning with fiscal year 2003, and in each succeeding fiscal year. The proposal provides these accounts as a risk management tool. It is likely that farmers and ranchers will make contributions to accounts in years when income is positive, and make withdrawals from accounts in years when revenue is negative, or at least subject to lower marginal tax rates. Revenue reductions are also likely to be larger within the first five years following passage of this proposal, than in subsequent years. After the first five years, initial deposits made under the proposal must have been withdrawn, and become subject to taxation, or become subject to taxation in any event. This is likely to significantly reduce the revenue reduction in years after the first five years following implementation of the bill.

Also, the bill includes contingent termination language that provides that this act will terminate on certification by the director of the department of revenue that a similar program has been passed at the federal level.