JOAN WADE SPILLNER

State Representative • 42nd Assembly District

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Montello, Wisconsin 53949
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TESTIMONY ON ASSEMBLY BILL 901
MARCH 17TH, 1998

Chairman Ott, members of the Agriculture Committee. I have circulated two recent articles to you from the *Wisconsin State Journal* which shows you the type of costly pollution standards the Federal government is proposing for small, medium and large size farms.

Estimates show that the cost of meeting the Federal standards could cost Wisconsin farmers millions of dollars of their own money. Just last week the Environmental Protection Agency (EPA) proposed regulations to reduce manure runoff from big farms. However, the new standards would also affect smaller operations, otherwise known as family farms. These family farms struggle to make ends meet. Now these new standards would require them to build manure storage systems and restrict manure spreading to certain times of the year.

This piece of legislation works with farmers to protect the environment by offering an economic incentive by way of a tax credit. Farmers may receive a 5% credit for working to reduce non-point pollution by making any of the following improvements to their land:

1. Renovating or repair water waste management systems related to farming.
2. Taking measures to limit and control soil erosion on farmland.
3. Engaging in efforts to reforest farmland.
4. Taking corrective action to stop discharge of pollution into the land, air or water.

In addition, this bill would provide $500,000 annually for farmers to recoup 5% of the educational cost of tuition and textbooks for those in the fields of agriculture or farm management.

We need to support the next generation of Wisconsin farmers if we are to retain our title as America's Dairyland.

Thank you.

Vote Record

Assembly Committee on Agriculture

Date: 3/17/98
Moved by: Spillner
Seconded by: Sykora
AB: 901
AB: ______ SB: ______ Clearinghouse Rule: ______
AJR: ______ SJR: ______ Appointment: ______
A: ______ SR: ______ Other: ______

A/S Amdt: ______
A/S Amdt: ______ to A/S Amdt: ______
A/S Sub Amdt: 1 to AB901
A/S Amdt: ______ to A/S Sub Amdt: ______
A/S Amdt: ______ to A/S Amdt: ______ to A/S Sub Amdt: ______

Be recommended for:

- ☐ Passage
- ☒ Introduction
- ☐ Adoption
- ☐ Rejection
- ☐ Indefinite Postponement
- ☐ Tabling
- ☐ Concurrence
- ☐ Nonconcurrence
- ☐ Confirmation

Committee Member	Aye	No	Absent	Not Voting
Rep. Alvin Ott, Chair	☒	☐	☐	☐
Rep. Tom Sykora	☒	☐	☐	☐
Rep. John Ainsworth	☒	☐	☐	☐
Rep. Eugene Hahn	☒	☐	☐	☐
Rep. Clifford Otte	☒	☐	☐	☐
Rep. ~~David Ward~~ Spillner	☒	☐	☐	☐
Rep. Robert Zukowski	☒	☐	☐	☐
Rep. Rick Skindrud	☒	☐	☐	☐
Rep. Barbara Gronemus	☒	☐	☐	☐
Rep. Marty Reynolds	☒	☐	☐	☐
Rep. Tom Springer	☒	☐	☐	☐
Rep. Robert Dueholm	☒	☐	☐	☐
Rep. John Steinbrink	☒	☐	☐	☐
Rep. Joe Plouff	☒	☐	☐	☐
Totals:	14	0		

☒ Motion Carried ☐ Motion Failed

Vote Record

Assembly Committee on Agriculture

Date: 3/17/98
Moved by: Spillner
Seconded by: Gronemus
AB: 901
AB:
SB:
Clearinghouse Rule:
AJR:
SJR:
Appointment:
A:
SR:
Other:

A/S Amdt:
A/S Amdt: to A/S Amdt:
A/S Sub Amdt: 1 to AB901
A/S Amdt: to A/S Sub Amdt:
A/S Amdt: to A/S Amdt: to A/S Sub Amdt:

Be recommended for:

- ☐ Passage
- ☐ Introduction
- ☒ Adoption
- ☐ Rejection
- ☐ Indefinite Postponement
- ☐ Tabling
- ☐ Concurrence
- ☐ Nonconcurrence
- ☐ Confirmation

Committee Member	Aye	No	Absent	Not Voting
Rep. Alvin Ott, Chair	☒	☐	☐	☐
Rep. Tom Sykora	☒	☐	☐	☐
Rep. John Ainsworth	☒	☐	☐	☐
Rep. Eugene Hahn	☒	☐	☐	☐
Rep. Clifford Otte	☒	☐	☐	☐
Rep. ~~David Ward~~ Spillner	☒	☐	☐	☐
Rep. Robert Zukowski	☒	☐	☐	☐
Rep. Rick Skindrud	☒	☐	☐	☐
Rep. Barbara Gronemus	☒	☐	☐	☐
Rep. Marty Reynolds	☒	☐	☐	☐
Rep. Tom Springer	☒	☐	☐	☐
Rep. Robert Dueholm	☒	☐	☐	☐
Rep. John Steinbrink	☒	☐	☐	☐
Rep. Joe Plouff	☒	☐	☐	☐
Totals:	14	0		

☒ Motion Carried ☐ Motion Failed

Vote Record

Assembly Committee on Agriculture

3/17/98

Date: ~~10/16/97~~
Moved by: Spillner
AB: 901
AB:
AJR:
A:

SB:
SJR:
SR:

Seconded by: Ott
Clearinghouse Rule:
Appointment:
Other:

A/S Amdt:
A/S Amdt: to A/S Amdt:
A/S Sub Amdt: 1 TO AB901
A/S Amdt: to A/S Sub Amdt:
A/S Amdt: to A/S Amdt: to A/S Sub Amdt:

Be recommended for:

- [x] Passage
- [ ] Introduction
- [ ] Adoption
- [ ] Rejection
- [ ] Indefinite Postponement
- [ ] Tabling
- [ ] Concurrence
- [ ] Nonconcurrence
- [ ] Confirmation

Committee Member	Aye	No	Absent	Not Voting
Rep. Alvin Ott, Chair	X			
Rep. Tom Sykora	X			
Rep. John Ainsworth	X			
Rep. Eugene Hahn	X			
Rep. Clifford Otte	X			
Rep. ~~David Ward~~ Spillner	X			
Rep. Robert Zukowski	X			
Rep. Rick Skindrud	X			
Rep. Barbara Gronemus	X			
Rep. Marty Reynolds	X			
Rep. Tom Springer	X			
Rep. Robert Dueholm	X			
Rep. John Steinbrink	X			
Rep. Joe Plouff	X			
Totals:	14	0		

- [x] Motion Carried
- [ ] Motion Failed

3/98

More regulations for dairy farms?

Pollution changes could affect 12,000 state operations

By Rick Barrett
Agribusiness reporter

Dairy farms with more than 69 cows would be tightly regulated under pollution rules proposed by the U.S. Environmental Protection Agency.

The regulations, which call for aggressive enforcement of the federal Clean Water Act, could affect up to 12,000 of the state's 23,000 dairy farms, according to the Wisconsin Farm Bureau Federation. The rules also would apply to beef, hog and poultry farms.

"It could have one heck of an impact on Wisconsin," said Paul Zimmerman, Farm Bureau director of government relations.

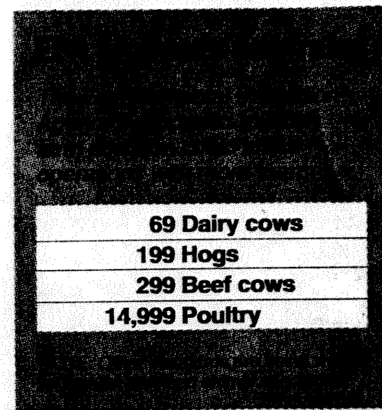
Under the proposed EPA rules, even farms with as few as 20 dairy cows, 50 beef cattle, and 100 hogs would be required to adopt some type of manure management standards.

But the real target of the rules would be mid-sized and big farms. They would have to undergo regular inspections, obtain pollution permits and develop plans limiting release of chemicals, manure and other wastes into waterways.

Such pollution has been blamed for excessive nutrients and toxic chemicals getting into waterways, creating "dead zones" where fish and other aquatic life no longer survive.

Currently, cattle feedlots, large commercial hog farms and poultry farms are regulated by state governments. Standards and permits vary widely.

Wisconsin already has some of the strictest pollution standards in the nation, said Department of Natural Resources Secretary George Meyer.



WSJ graphic

Also, in about a year, Wisconsin will have additional regulations applicable to farms with less than 1,000 "animal units" — roughly 750 dairy cows.

"We have some of the best pollution standards in the country," Meyer said. "I don't think the EPA regulations will affect us as much as they will some other states."

Still, farm groups contend the expense of complying with another set of regulations could put farmers out of business.

The EPA proposal would require factory-like permits for farms with more than 1,000 cattle, 2,500 hogs or 100,000 laying hens.

Other permits could be required for smaller farms near lakes, rivers and environmentally sensitive areas.

The biggest farms would have to fully comply with the pollution controls by 2002 and the rest by 2005.

There's still time for the livestock industry to negotiate some terms in the EPA rules, said David Crass, an environmental lawyer in Madison.

"But farmers need to pay attention," he said. "If they're asleep at the switch, these rules will be adopted and they will have to live with it."

EPA's proposal could cost millions

By Rick Barrett
Agribusiness reporter

If the Environmental Protection Agency adopts strict pollution standards for small and mid-sized farms, it could cost Wisconsin farmers millions of dollars.

The bulk of the proposed regulations are aimed at large confined animal feeding operations, which are facilities with hundreds or thousands of animals concentrated on individual farms.

The EPA's goal is to reduce manure runoffs from big farms that have been blamed for "dead zones" in waterways throughout the United States, including the Gulf of Mexico.

There are few such mega-farms in Wisconsin, which has more small farms than any other state.

But the proposed regulations also include new standards for smaller farms, such as operations with only 70 dairy cattle, 200 hogs or 300 beef cattle.

"That's where the rubber is going to meet the road," said David Crass, an environmental attorney in Madison.

Under the proposed regulations for smaller operations, farmers could be required to build manure storage systems and develop plans for spreading manure on fields only during certain months of the year.

"The proposed regulations aren't an empty threat," said Paul Zimmerman with the Wisconsin Farm Bureau Federation. "And they could be expensive."

In some states, such as Florida and Louisiana, the EPA would only need a few inspectors to enforce the new regulations.

"But the EPA would need an army of inspectors to handle Wisconsin and Minnesota," because the states are dotted with thousands of smaller farms, Zimmerman said.

Wisconsin hog producers don't necessarily disagree with the proposed regulations, said Bob Uphoff, a Dane County pork producer and member of a National Pork Producers Council environmental committee.

GET INVOLVED: The Environmental Protection Agency wants comments on its proposed farm pollution standards.
Comments can be submitted to:
Ruby Cooper-Ford, National AFO Program Manager
U.S. Environmental Protection Agency
401 M St., S.W.
Mail Code 4203
Wasington, D.C. 20460
Comments can be sent by E-mail to:
Ford@epamail.epa.gov.

"The time is coming when all agriculture is going to have some environmental oversight," Uphoff said. "But if a farmer is going to be forced to spend thousands of dollars of his own money, it's critical that the new standards be science-based."

The EPA should offer financial incentives to farmers who are forced to make changes, Uphoff said.

"They can't develop regulations that will put an industry out of business," he said. "And incentives are a better approach than using a great big hammer and a club."

The EPA is probably coming on strong with its proposed rules, knowing there will be room for negotiations, Crass added.

"My guess is the rules (when finished) won't apply to every farmer with a herd of 70 cows. But they will apply to areas where farms have manure runoff threatening a stream or a lake."

The real impact of the rules will come in the details, said state Sen. Alice Clausing, D-Menomonie.

Clausing is chairwoman of the Senate agricultural committee. In the next few weeks, she plans to introduce legislation that would create a moratorium on new, large, confined animal operations — such as a 1,000-cow dairy farm.

The moratorium would be effective until the state's agriculture and natural resources departments write tougher pollution standards, Clausing said.

- Free Farms?
- Just the Farms Income?
- CRP? not included
Involved in
- Split the Bill?

Assembly Hearing Slip

(Please print plainly)

Date: 3-17

Bill No. 901
Or
Subject

Rep. Joan Spillner
(Name)

(Street Address or Route Number)

(City & Zip Code)

(Representing)

Speaking *in favor:* ☒
Speaking *against:* ☐
Registering *in favor:* ☐
Registering *against:* ☐
Speaking for *information only;* Neither for nor against: ☐

Please return this slip to a messenger promptly.

Assembly Sergeant at Arms
Room 411 West
State Capitol
Madison, WI 53702

Assembly Hearing Slip

(Please print plainly)

Date: 3-17-98

Bill No. AB 901
Or
Subject

Keith Foye
(Name)

2811 Agriculture Drive
(Street Address or Route Number)

Madison, WI 53708
(City & Zip Code)

DATCP
(Representing)

Speaking *in favor:* ☒
Speaking *against:* ☐
Registering *in favor:* ☐
Registering *against:* ☐
Speaking for *information only;* Neither for nor against: ☐

Please return this slip to a messenger promptly.

Assembly Sergeant at Arms
Room 411 West
State Capitol
Madison, WI 53702

MEMORANDUM

March 16, 1998

TO: Marc Shovers
Legislative Reference Bureau

FROM: Yeang-Eng Braun YEB
Department of Revenue

SUBJECT: Technical Memorandum on AB 901 – Income and Franchise Tax Credit for Farm Expenses

The proposed legislation makes no provision for the funding of the costs involved in administering the activities required. If the author wishes to provide funding, appropriation language could be developed and costs allocated in the following manner:

	Chapter 20	1998-99 Amount	1999-00 Amount	FTE Positions
One-time	s.20.566(1)(a)	$319,700	$25,200	
Annual	s.20.566(1)(a)		136,600	2.0

If you have questions regarding this technical memorandum, please contact Pat Lashore at 266-3347.

YEB:PW;ds
t:\fsn97-98\pw\ab901.tec

1997 Session

LRB or Bill No./Adm. Rule No.

AB 901

Amendment No. if Applicable

FISCAL ESTIMATE
DOA-2048 N(R10/94)

☒ ORIGINAL ☐ UPDATED
☐ CORRECTED ☐ SUPPLEMENTAL

Subject

Income and Franchise Tax Credit for Farm Expenses

Fiscal Effect

State: ☐ No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

☐ Increase Existing Appropriation ☐ Increase Existing Revenues
☐ Decrease Existing Appropriation ☒ Decrease Existing Revenues
☐ Create New Appropriation

☐ Increase Costs - May be Possible to Absorb Within Agency's Budget ☐ Yes ☐ No

☐ Decrease Costs

Local: ☒ No Local Government Costs

1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenues ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenues ☐ Permissive ☐ Mandatory
5. Types of Local Governmental Units Affected:
☐ Towns ☐ Villages ☐ Cities
☐ Counties ☐ Others ______
☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEG-S

Affected Ch. 20 Appropriations

20.566 (1)(a)

Assumptions Used in Arriving at Fiscal Estimate

The bill would create a nonrefundable income and franchise tax credit for certain expenses paid by persons studying agriculture or by farm management and businesses actively engaged in farming. The credit is nonrefundable and unused credits may be carried forward for 15 years to offset tax liability in future years.

Under the bill, farm related expenditures that would qualify for the credit include:
1. 5% of tuition and textbook expenses of an individual or employee to attend courses at an eligible institution in the fields of agriculture or farm management;
2. 5% of the cost to construct, renovate or repair water or waste management systems, limit and control soil erosion, engage in reforestation of farmland, or take corrective action to stop discharge of pollution into the land, air or water;

According to information from the U.S. Census of Agriculture and U.S. Department of Agriculture, approximately $93.6 million is spent annually by Wisconsin farmers on eligible agricultural expenses by persons or businesses actively engaged in farming. These expenditures would generally be eligible for a 5% credit, so potential credit claims on these amounts are $4.7 million ($93.6 million x .05).

(continued on page two)

Long-Range Fiscal Implications

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department Of Revenue Craig Kammholz, (608) 261-8984 Pamela Walgren, (608) 266-7817	Yeang-Eng Braun (608) 266-2700 Yeang Eng Braun	3/16/98

1997 Session

FISCAL ESTIMATE WORKSHEET
Detailed Estimate of Annual Fiscal Effect
DOA-2047(R10/94)

☒ ORIGINAL ☐ UPDATED
☐ CORRECTED ☐ SUPPLEMENTAL

LRB OR Bill No.\Adm. Rule No.	Amendment No.
AB 901	

Subject

Income and Franchise Tax Credit for Farm Expenses

I. One-Time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

One-time administrative costs of $319,700 in FY 1998-99 and $25,200 in FY 1999-00

II. Annualized Costs:	Annualized Fiscal Impact on State Funds from:	
A. State Costs by Category	**Increased Costs**	**Decreased Costs**
State Operations - Salaries and Fringe	$ 136,600	$ -
(FTE Position Changes)	(2.0 FTE)	(FTE)
State Operations-Other Costs		-
Local Assistance		-
Aids to Individuals or Organizations		-
TOTAL State Costs by Category	$ 136,600	$ -
B. State Costs by Source of Funds	**Increased Costs**	**Decreased Costs**
GPR	$ 136,600	$ -
FED	$	-
PRO/PRS	$	-
SEG/SEG-S		-
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)	**Increased Rev.**	**Decreased Rev.**
GPR Taxes	$	$ - 3.9 million
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S		-
TOTAL State Revenues	$	$ - 3.9 million

NET ANNUALIZED FISCAL IMPACT

	STATE	LOCAL
NET CHANGE IN COSTS	$ 136,600	$
NET CHANGE IN REVENUES	$ - 3.9 million	$

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department Of Revenue Craig Kammholz, (608) 261-8984 Pamela Walgren, (608) 266-7817	Yeong-Eng Braun (608) 266-2700 Yeang Ey Braun	3/16/98

Fiscal Estimate
AB 901
Page 2

Based on information provided by the University of Wisconsin System, the University of Wisconsin-Extension and the Wisconsin Technical College System, approximately $10.9 million is spent for educational expenses related to agriculture and farm management courses. These expenses would also be eligible for a 5% credit, so potential credit claims are $0.5 million ($10.9 million x .05).

The potential credit claims under this bill are $5.2 million ($4.7 million + $.5 million). Because some farmers will not have enough tax liability to fully use up their credits in the year claimed, this estimate assumes that only 75% of the eligible credit amount would be used in a given year. Thus, it is estimated that a credit for agricultural expenses would reduce state tax revenues by $3.9 million ($5.2 million x .75).

Administrative costs would increase because the individual and corporate tax booklets would require additional pages to accommodate new schedules and additional lines on the tax form; computer program changes would be needed to process the new credit, and claims would require additional screening, keying and auditing of returns. As a result, there would be additional one-time costs of $319,700 in FY 1998-99 and $25,200 in FY 1999-00. There would also be on-going costs of $136,600 annually.

YTB 3/16/98

1997 Session

LRB or Bill No./Adm. Rule No.

LRB 4318/1

Amendment No. if Applicable

PRELIMINARY

FISCAL ESTIMATE
DOA-2048 N(R10/94)

☒ ORIGINAL ☐ UPDATED
☐ CORRECTED ☐ SUPPLEMENTAL

Subject

Income and Franchise Tax Credit for Farm Expenses

Fiscal Effect

State: ☐ No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

☐ Increase Existing Appropriation ☐ Increase Existing Revenues
☐ Decrease Existing Appropriation ☒ Decrease Existing Revenues
☐ Create New Appropriation

☒ Increase Costs - May be Possible to Absorb Within Agency's Budget ☐ Yes ☒ No

☐ Decrease Costs

Local: ☒ No Local Government Costs

1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenues ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenues ☐ Permissive ☐ Mandatory
5. Types of Local Governmental Units Affected:
☐ Towns ☐ Villages ☐ Cities
☐ Counties ☐ Others ______
☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEG-S

Affected Ch. 20 Appropriations

Assumptions Used in Arriving at Fiscal Estimate

The bill would create a nonrefundable income and franchise tax credit for certain expenses paid by persons studying agriculture or by farm management and businesses actively engaged in farming. The credit is nonrefundable and unused credits may be carried forward for 15 years to offset tax liability in future years.

Under the bill, farm related expenditures that would qualify for the credit include:
1. 5% of tuition and textbook expenses of an individual or employee to attend courses at an eligible institution in the fields of agriculture or farm management;
2. 5% of the purchase price paid for depreciable tangible property used in farming or 3.5% of the purchase price if the property is expensed under section 179 of the IRC;
3. 5% of the cost to construct, renovate or repair buildings, feedlots or fences used in farming;
4. 5% of the cost to construct, renovate or repair water or waste management systems, limit and control soil erosion, engage in reforestation of farmland, or take corrective action to stop discharge of pollution into the land, air or water;
5. 5% of the cost to purchase new livestock; and
6. state and local sales tax paid by the claimant on the purchase, lease or rental of depreciable tangible property used in farming.

(continued on page two)

Long-Range Fiscal Implications

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department Of Revenue Craig Kammholz, (608) 261-8984 Pamela Walgren, (608) 266-7817	Yeang-Eng Braun Yeang Eng Braun (608) 266-2700	2/25/98

According to information from the U.S. Census of Agriculture and U.S. Department of Agriculture, approximately $830.5 million is spent annually by Wisconsin farmers on capital purchases of machinery and equipment, buildings, structures and land improvements and livestock. These expenditures would generally be eligible for a 5% credit, so potential credit claims on these amounts are $41.5 million ($830.5 million x .05).

Based on information provided by the University of Wisconsin System, the University of Wisconsin-Extension and the Wisconsin Technical College System, approximately $10.9 million is spent for educational expenses related to agriculture and farm management courses. These expenses would also be eligible for a 5% credit, so potential credit claims are $0.5 million ($10.9 million x .05).

Information provided by the Census of Agriculture, the Census of Construction and the U.S. Department of Agriculture indicates that there is approximately $181.7 million in eligible farm-related expenditures that are subject to the sales tax. This figure translates into $9.1 million in state sales tax revenues ($181.7 x 5%). Local sales tax revenues collected by Wisconsin counties and the Southeast Wisconsin Professional Baseball Park District are approximately 6.21% of state sales tax revenues, so estimated local sales taxes are an additional $560,000 ($9.1 million x 6.21%). Therefore, total sales tax revenues on these expenditures are $9.7 million ($9.1 million + $0.6 million). A credit would be provided on the full amount of these expenses.

Total potential credit claims under this bill are $51.7 million ($41.5 million + $0.5 million + $9.7 million). Because some farmers will not have enough tax liability to fully use up their credits in the year claimed, this estimate assumes that only 75% of the eligible credit amount would be used in a given year. Thus, it is estimated that a credit for agricultural expenses would reduce state tax revenues by $38.8 million annually ($51.7 million x 75%).

Information on administrative costs is not yet available and will be provided in an updated fiscal estimate.

4EB 2/25/98

PRELIMINARY

1997 Session

FISCAL ESTIMATE WORKSHEET Detailed Estimate of Annual Fiscal Effect DOA-2047(R10/94)	☒ ORIGINAL ☐ UPDATED ☐ CORRECTED ☐ SUPPLEMENTAL	LRB OR Bill No.\Adm. Rule No. LRB 4318/1	Amendment No.

Subject

Income and Franchise Tax Credit for Farm Expenses

I. One-Time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

Not Available At This Time

II. Annualized Costs:	Annualized Fiscal Impact on State Funds from:	
A. State Costs by Category	**Increased Costs**	**Decreased Costs**
State Operations - Salaries and Fringe	$	$ -
(FTE Position Changes)	(FTE)	(FTE)
State Operations-Other Costs		-
Local Assistance		-
Aids to Individuals or Organizations		-
TOTAL State Costs by Category	$ Not Available At This Time	$ -
B. State Costs by Source of Funds	**Increased Costs**	**Decreased Costs**
GPR	$ Not Available At This Time	$ -
FED	$	-
PRO/PRS	$	-
SEG/SEG-S		-
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)	**Increased Rev.**	**Decreased Rev.**
GPR Taxes	$	$ - 38.8 million
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S		-
TOTAL State Revenues	$	$ - 38.8 million

NET ANNUALIZED FISCAL IMPACT	STATE	LOCAL
NET CHANGE IN COSTS	$ Not Available At This Time	$
NET CHANGE IN REVENUES	$ - 38.8 million	$

Agency/Prepared by: (Name & Phone No.)	**Authorized Signature/Telephone No.**	**Date**
Wisconsin Department Of Revenue **Craig Kammholz, (608) 261-8984** **Pamela Walgren, (608) 266-7817**	**Yeang-Eng Braun** **(608) 266-2700** Yeang Eng Braun	2/25/98

JBMITTAL FORM

LEGISLATIVE REFERENCE BUREAU
Legal Section Telephone: 266-3561
5th Floor, 100 N. Hamilton Street

The attached draft is submitted for your inspection. Please check each part carefully, proofread each word, and **sign** on the appropriate line(s) below.

Date: 11/18/97

To: Representative Ott

Relating to LRB drafting number: LRB-4318

Topic
Income/Franchise tax credit for farmland education, investments

Subject(s)
Tax - individual income, Tax - corp. inc. and fran., Tax Credits (inc) - farmland

1. **JACKET** the draft for introduction ____________________

   in the **Senate** ____ or the **Assembly** ____ (check only one). Only the requester under whose name the drafting request is entered in the LRB's drafting records may authorize the draft to be submitted. Please allow one day for the preparation of the required copies.

2. **REDRAFT.** See the changes indicated or attached ____________________.

   A revised draft will be submitted for your approval with changes incorporated.

3. Obtain **FISCAL ESTIMATE NOW**, prior to introduction Alvin R. Ott Jr.

   If the analysis indicates that a fiscal estimate is required because the proposal makes an appropriation or increases or decreases existing appropriations or state or general local government fiscal liability or revenues, you have the option to request the fiscal estimate prior to introduction. If you choose to introduce the proposal without the fiscal estimate, the fiscal estimate will be requested automatically upon introduction. It takes about 10 days to obtain a fiscal estimate. Requesting the fiscal estimate prior to introduction retains your flexibility for possible redrafting of the proposal.

If you have any questions regarding the above procedures, please call 266-3561. If you have any questions relating to the attached draft, please feel free to call me.

Marc E. Shovers, Senior Legislative Attorney
Telephone: (608) 266-0129

Marc Shovers

BILL REQUEST FORM

LEGISLATIVE REFERENCE BUREAU
Legal Section Telephone: 266-3561
5th Floor, 100 N. Hamilton Street

Use of this form is optional. It is often better to talk directly with the LRB attorney who will draft the bill.

Use this form only for **BILL** drafts. Attach more pages if necessary.

Legislator, agency or other body requesting this draft: Rep. Ott 6-5831

Date: 6-12-97 Person submitting request (name, phone number): Kim Markham (staff to Rep. Ott) 6-5831

Persons to contact for questions about this draft (names, phone numbers): same as above or John Behling - Dairy 2020 - 6-7370

Describe the problem, including any helpful examples.

How do you want to solve the problem?

Please draft a bill relation to tax credits relating to agriculture using the attached language.

Please attach a copy of any correspondence or other material that may help us.

If you know of any statute sections that might be affected, list them or provide a marked-up (not retyped) copy.

You may attach a marked-up (not retyped) copy of any LRB draft, or provide its number (e.g., 1995 LRB-2345/1 or 1993 AB-67):

Requests are confidential unless stated otherwise.

- May we tell others that we are working on this for you? Yes ☐ No ☒
- If yes: Anyone who asks? Yes ☐ No ☐ Any legislator? Yes ☐ No ☐ Only the following persons:

Do you consider this request urgent? Yes ☐ No ☒ If yes, please indicate why:

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SECTION 2. Section 71.07(3r) of the statutes is created to read:

71.07(3r). FARMLAND EDUCATION, INVESTMENT AND SALES CREDITS.

(a) **Definitions.** In this subsection:

1. "Agricultural use" shall have the meaning set forth in s. 91.01(1).

2. "Claimant" shall have the meaning set forth in s. 71.07(3m)(a)1.

3. "Department" means the department of revenue.

4. "Depreciable farm property" means depreciable, tangible property used by a claimant engaged in the trade or business of farming including new farm machinery, milking and irrigation equipment, and other personal property used in farming.

5. "Engaged in the trade or business of farming" means actively engaging in agricultural use of the farm land.

6 "Farmland" has the meaning in s. 71.07(3m)(a)3.

7. "Livestock" means cattle, swine, sheep, goats and other species of animals susceptible of use in the production of dairy products, meat and meat products.

(b) **Filing Claims.**

1. **Eligibility and qualifications.** Subject to the limitations in this subsection and ss. 71.80(3) and (3m), a claimant may claim as a credit against Wisconsin income taxes otherwise due, the amounts determined under par. (c).

2. **Carry forward of credits.** Any claimant receiving a credit under this subsection may carry forward to the next succeeding 15 taxable years the amount of the credit not offset against taxes for the year of the activity which forms the basis for the credit to the extent not offset by those taxes otherwise due in all intervening years between the year for which the credit was computed and the year for which the carry-forward is claimed.

3. **Ineligible claims.** No credit may be allowed under this subsection:

a. Unless a claim is filed with the department in conformity with the filing requirements in ss. 71.03(6) and (7).

b. If the department determines that ownership of the farmland has been transferred to the claimant for the purpose of maximizing benefits under this subsection.

c. If the department determines that the claimant is not engaged in the trade or business of farming.

(c) **Computation.** A claimant engaged in the trade or business of farming may claim against taxes otherwise due under this subchapter equal to:

1. 5 percent of the total tuition and costs for attending agricultural and farm management courses sponsored by the University of Wisconsin, Wisconsin Technical College System or other accredited educational institutions.

2. 5 percent of the purchase price of depreciable farm property acquired by the claimant, or 3.5 percent of the purchase price of depreciable farm property that is expensed under section 179 of the internal revenue code for purposes of the taxes under this subchapter.

3. 5 percent of the cost expended by a claimant to construct, renovate, rehabilitate or repair farm buildings, milking parlors, barns, feedlots and fences.

4. 5 percent of the cost expended by a claimant to construct, renovate, rehabilitate or repair water and waste management systems, to limit and control soil erosion, to take corrective action under s. 94.73 in connection with the discharge of agricultural chemicals, or to engage in reforestation of farmland.

5. 5 percent of the cost expended by a claimant to purchase new dairy cattle and livestock.

6. The amount of taxes paid by the claimant under subchs. III and V of ch. 77 on the purchase, lease and rental of depreciable farm property.

SECTION **3.** Section 71.28(2r) of the statutes is created to read:

71.28(2r). FARMLAND EDUCATION, INVESTMENT AND SALES CREDITS.

(a) **Definitions.** In this subsection:

1. "Agricultural use" has the meaning in s. 91.01(1).

2. "Department" means the department of revenue.

3. "Depreciable farm property" means depreciable, tangible property used by a corporation engaged in the trade or business of farming including new farm machinery, milking and irrigation equipment, and other personal property used in farming.

4. "Engaged in the trade or business of farming" means actively engaging in agricultural use of the farm land.

5 "Farmland" has the meaning in s. 71.07(3m)(a)3.

6. "Livestock" means cattle, swine, sheep, goats and other species of animals susceptible of use in the production of dairy products, meat and meat products.

(b) **Filing Claims.**

1. **Eligibility and qualifications.** Subject to the limitations provided in this subsection and ss. 71.80(3) and (3m), a corporation may claim as a credit against Wisconsin income taxes otherwise due, the amounts determined under par. (c).

2. **Carry forward of credits.** Any corporation receiving a credit under this subsection may carry forward to the next succeeding 15 taxable years the amount of the credit not offset against taxes for the year of the activity which forms the basis for the credit to the extent not offset by those taxes otherwise due in all intervening years between the year for which the credit was computed and the year for which the carry-forward is claimed.

3. **Ineligible claims.** No credit may be allowed under this subsection:

a. Unless a claim is filed with the department in conformity with the filing requirements in ss. 71.03(6) and (7).

b. If the department determines that ownership of the farmland has been transferred to the corporation for the purpose of maximizing benefits under this subsection.

c. If the department determines that the corporation is not engaged in the trade or business of farming.

(c) **Computation.** A corporation engaged in the trade or business of farming may claim against taxes otherwise due under this subchapter equal to:

1. 5 percent of the total tuition and costs for attending agricultural and farm management courses sponsored by the University of Wisconsin, Wisconsin Technical College System or other accredited educational institutions.

2. 5 percent of the purchase price of depreciable farm property acquired by the corporation, or 3.5 percent of the purchase price of depreciable farm property that is expensed under section 179 of the internal revenue code for purposes of the taxes under this subchapter.

3. 5 percent of the cost expended by a corporation to construct, renovate, rehabilitate or repair farm buildings, milking parlors, barns, feedlots and fences.

4. 5 percent of the cost expended by a corporation to construct, renovate, rehabilitate or repair water and waste management systems, to limit and control soil erosion, to take corrective action under s. 94.73 in connection with the discharge of agricultural chemicals, or to engage in reforestation of farmland.

5. 5 percent of the cost expended by a corporation to purchase new livestock.

6. The amount of taxes paid by the corporation under subchs. III and V of ch. 77 on the purchase, lease and rental of depreciable farm property.

Wisconsin Department of Revenue
Division of Research and Analysis
January 24, 1996

ANALYSIS OF PROPOSED TAX EXEMPTIONS AND CREDITS IN DAIRY 2020 LEGISLATION

The Department of Development (DOD), as part of the Governor's Dairy 2020 Council, is considering amending current tax law by creating a capital gains exemption and new tax credits aimed at encouraging and developing Wisconsin's dairy industry.

This paper considers the public policy issues and fiscal impact that result from the proposal. No attempt has been made by the Department to evaluate the administrative impact of the proposal or to offer suggestions that the Department feels would improve the draft language of the proposal in order to simplify the administration of the state tax code.

I. DOD PROPOSAL

The DOD draft suggests creating two types of tax incentives to encourage the continued development and stability of Wisconsin's dairy industry. The tax incentives would be available for corporate and noncorporate taxpayers.

A. <u>One-time Capital Gains Exclusion</u>

The first tax incentive would be a one-time capital gains exclusion for the sale or exchange of qualifying farm land completed by an individual. The exclusion would not exceed $250,000 for a married couple filing jointly and $125,000 for a married person filing separately or a single filer.

The taxpayer claiming the exemption would qualify only if certain conditions are met. First, the taxpayer must be 55 years or older in the year that the sale of the land is made. Second, the taxpayer making the sale, or a member of a taxpayer's household, has been involved in the farming of the land involved in the sale for the 10 years prior to the sale. And third, the buyer of the land must be a beginning rancher or farmer or someone who enters into a farmland preservation agreement.

A recapture provision also exists. The qualifying land must continue to be used for farming purposes for a period of at least 5 years after the sale of the land. If the land is converted to a nonfarming purpose during this period, a percentage of the exemption amount is recaptured and an interest penalty is levied. The percentage is dependent on the timing of the conversion of the land to nonfarming use, with quicker conversions subject to a larger recapture percentage of the original exemption amount. The recapture provision does not apply in bankruptcy cases or when the exemption failed to reduce Wisconsin income tax in the year it was claimed.

B. Farmland Education, Investment and Sales Tax Credits

The proposal would establish several new tax credits for corporate and noncorporate taxpayers. The credits include:

- a credit equal to 5% of the tuition and costs to attend agricultural and farm management courses through an accredited school;
- an investment tax credit equal to 5% of the purchase price of depreciable farm property, or 3.5% of the cost of the property if it is expensed under section 179 of the internal revenue code;
- a credit equal to 5% of the cost to construct, renovate, repair, or rehabilitate farm property;
- a 100% sales tax credit for amounts paid for the purchase, lease and rental of depreciable farm property.
- a 5% credit for constructing or repairing water and waste management systems used to limit or control soil erosion, to take corrective action in the discharge of agricultural chemicals, or to engage in reforestation of farmland;
- a 5% investment tax credit for purchasing new dairy cattle and livestock;

The proposed credits would be nonrefundable; unused amounts could be carried forward for up to 15 years.

II. FISCAL EFFECT

A. One-time Capital Gains Exclusion

The fiscal effect that would result from the one-time capital gains exclusion is unknown. However, some data does exist that may give an indication of the magnitude of the fiscal effect.

Based on results from a simulation using the 1993 Individual Income Tax Sample, as many as 1,800 taxpayers would benefit from the proposed one-time capital gains exclusion. The revenue loss, after adjusting for growth in farmland value between 1993 and 1996, is estimated to be $600,000.

These data are incomplete, however, and there are several reasons why the fiscal effect is likely to be different from the simulation results. First, while data exist on sales of farmland in specific years that would shed light on taxable gains, the nature of the proposal creating a one-time exclusion for gains from the sale of farmland if certain conditions are met makes estimating the fiscal impact for these particular gains impossible. For example, a taxpayer qualifies for the exemption only if the taxpayer selling the land is at least age 55 or older; there is nothing in the data that indicates how many of the taxpayers would qualify for the exemption based on their age.

Also, it is possible that some of the farmland was converted to nonfarming uses; under the qualifying terms of the proposal, these taxpayers would not be able to claim the exemption. It is likely that at least some of the farmland sales captured by the data would not qualify for the exemption. Thus, for all of these reasons, the fiscal effect at least partially overstates the actual revenue loss.

But there also exists reasons as to why the fiscal effect may be understated. Many sales of farm property occur on the installment basis. These sales are not captured by the capital gains simulation that was done to measure this fiscal effect. Also, many farmland sales are carried out first on a rental basis in which the owner, at least initially, maintains ownership of the property. These arrangements are also not captured by the fiscal estimate.

These conflicting factors contribute to the uncertainty of the fiscal estimate.

B. Tax Credit Estimates

Information on two of the tax credits--the 5% tuition credit and the 5% credit for investing in waste management systems and other environmental remidiation systems--is not readily available. Therefore, no fiscal estimate is provided for these two proposed tax credits.

Fiscal estimates on the other three proposed tax credits are provided below. The estimates assume that the tax credits will be effective for investments and purchases made on or after January 1, 1996; thus, the estimates represent state revenue losses for FY 1997.

While the proposal indicates that the tax credits will be nonrefundable, the estimates presented indicate the revenue loss to the state if 100% of the credits claimed during the year are also used during the year. In reality, many farmers do not have enough taxable income in a given year to use 100% of the tax credits they are likely to claim. This analysis makes no attempt to estimate what proportion of credits claimed in a year are actually used in the same year.

1. 5% Depreciable Farm Property Investment Tax Credit

   Based on information from the Economic Research Service (ERS) of the U.S. Agricultural Department (USDA), total investment in new farm machinery and equipment in the U.S. in 1990 totaled $6,401.9 million. It is estimated that the Wisconsin share of this new investment (based on the ratio of Wisconsin gross farm income to gross farm income in the U.S. in 1994, which is 3.04%) is $194.4 million in 1990 (6,401.9 x .0304). After adjusting for growth in new investment by farmers between 1990 and 1996, it is estimated new investment in 1996 is $200.9 million in Wisconsin.

   Based on a 5% credit rate, the revenue loss to the state would be $10 million.

2. 5% Farm Real Property Investment and Rehabilitation Tax Credit

   Information from the ERS indicates 1990 investment in and improvements to farm real property in the U.S. was $3,390.4 million. Based on a 3.04% state share, an estimated $103.0 million of this investment is attributed to Wisconsin.

   After adjusting for growth, the estimated 1996 real property investment in Wisconsin is $106.4 million.

   Based on a 5% credit rate, the revenue loss to the state would be $5.3 million

3. 100% Sales Tax Credit

The state sales tax rate is 5%, and 48 of Wisconsin's 72 counties levy an optional 0.5% sales tax. Thus, for purposes of this estimate, a 5.5% state and local sales tax rate is used.

The sales tax credit estimate assumes the same investment in depreciable farm equipment for 1996 that was used in point 1 above--$200.9 million. Applying a 5.5% state and local sales tax rate, the estimated state revenue loss for the sales tax credit is $11.1 million.

4. 5% Investment Tax Credit for Livestock and Cattle Purchases

Information from ERS indicates that $49.3 million was expended on livestock and other farm animal purchases in 1994 by Wisconsin farmers. After adjusting for growth, it is estimated that similar purchases made in 1996 will total $50.4 million.

Based on a 5% ITC rate, the estimated state revenue loss in 1996 is $2.5 million.

5. Fiscal Estimate Summary

Table 1 summarizes the state fiscal effect of the proposed capital gains exemption and the six new tax credits.

Table 1
Fiscal Estimate of Proposal

Tax Incentive	FY 1997 Fiscal Estimate ($ Millions)
One-time Capital Gains Exemption	$0.6
5% Depreciable Farm Property Investment Tax Credit	10.0
5% Farm Real Property Investment and Rehabilitation Tax Credit	5.3
100% Sales Tax Credit	11.1
5% ITC for Livestock and Cattle Purchases	2.5
5% Tuition Credit	NA
5% ITC for Waste Management Equipment	NA
Total	$29.5

III. TAX POLICY CONSIDERATIONS

Agriculture in general, and the dairy industry in particular, have been an important part of the Wisconsin economy for many years. In 1993, the state ranked 10th nationally in terms of cash receipts from farming, with receipts from dairy products first among all fifty states. However, in recent years California has surpassed Wisconsin in some measures as the dairy state leader. In order to protect and maintain the economic viability of the farming industry in general and the dairy industry in particular, policy makers feel it is important to target subsidies towards the farm sector. This proposal is aimed at keeping the farm sector in Wisconsin competitive nationally.

In order for tax subsidies to be effective, they must reach their intended population. If the farming sector has little or no income, the proposed tax subsidies will be ineffective because they are poorly targeted.

Table 2 below shows aggregate data for farmers, by Wisconsin income class, from the Department of Revenue's 1993 Individual Income Tax Model. In order to identify only those taxpayers whose principal activity is farming, the data was restricted to only those taxpayers with gross farm income greater than $6,000, which is the same amount used in the state's farmland preservation credit to determine a qualifying farmer.

Table 2
Distribution of Income and Taxable Income for Farmers with Gross Farm Inocme > $6,000

Adjusted Gross Income	Count	% of Total	Net Farm Income		Other Income		Total Income		Wisconsin Taxable Income	
			Amount ($M)	Average	Amount ($M)	Average	Amount ($M)	Average	Amount ($M)	Average
< $0	5,168	10.2%	($110.6)	($21,396	$67.7	$13,106	($42.8)	($8,290	($79.8)	($15,444
$0 - 5,000	4,606	9.1%	(15.2)	(3,304	33.4	7,246	18.2	3,942	12.6	2,730
$5 - 10,000	6,062	12.0%	3.4	558	68.9	11,361	72.3	11,919	46.7	7,707
$10 - 15,000	6,079	12.0%	14.1	2,322	101.1	16,624	115.2	18,946	77.3	12,711
$15 - 20,000	6,601	13.1%	12.0	1,822	141.5	21,434	153.5	23,256	116.8	17,690
$20 - 25,000	4,459	8.8%	14.6	3,272	113.7	25,494	128.3	28,767	100.1	22,460
$25 - 30,000	4,153	8.2%	23.6	5,682	137.0	32,992	160.6	38,674	114.7	27,609
$30 - 40,000	5,842	11.6%	27.2	4,651	222.8	38,142	250.0	42,793	200.6	34,332
$40 - 50,000	2,511	5.0%	7.8	3,110	141.7	56,425	149.5	59,536	112.3	44,716
$50 - 75,000	2,990	5.9%	17.7	5,906	198.6	66,429	216.3	72,335	179.2	59,939
$75 - 100,000	1,022	2.0%	7.9	7,693	101.9	99,676	109.7	107,369	88.2	86,255
$100 - 200,000	699	1.4%	4.4	6,302	101.4	145,008	105.8	151,310	92.4	132,191
$200 - 300,000	185	0.4%	7.2	38,967	45.4	245,585	52.6	284,552	46.6	252,120
> $300,000	140	0.3%	(6.7)	(47,609	135.0	964,250	128.3	916,641	138.0	985,771
Total	50,517	100%	$7.4	$146	$1,610.0	$31,871	$1,617.4	$32,016	$1,245.6	$24,657

Source: 1993 Wisconsin Individual Income Tax Model

It is important to note that those taxpayers whose principal business activity is identified as farming supplement their farm income with income from other activities. As Table 2 shows, in many cases, the off-farm income is a significant portion of the total income of these farmers. Some would argue that providing tax subsidies for farmers who derive much of their income from non-farming activities is poor tax policy.

Additionally, 65% of the taxpayers have adjusted gross income of $25,000 or less. The average net farm income of this group is -$2,477, and their average taxable income is $8,299. This lack of income means the tax code is a poor choice from which to run a subsidy program. It is difficult to effectively target subsidies to taxpayers when many of them cannot take advantage of the subsidies because their tax liabilities are too low to fully utilize the credits. In these cases, subsidies through direct grants would be more effective.

Finally, Wisconsin already provides a number of tax incentives for farmers under current law. The following is a list of the special tax incentives available to farmers.

- Property tax exemptions are allowed for the following property: farm machinery and equipment, milkhouse equipment, tools and garden equipment, livestock, manure storage facilities, treatment plant and pollution abatement equipment, feed, cheese that is stored, and secondary containment structures used to prevent leakage of liquid fertilizer or pesticides.

- Sales tax exemptions exist for farm machinery, electricity used in farming, medicines used on farm livestock, veterinary services provided for health care or breeding, semen for livestock breeding, milkhouse supplies, waste treatment facilities, long-term rental payments for real estate used for business purposes (including dairy farms). In addition, many business services available to farmers are not subject to tax.

- Motor fuel sold for off-highway use is exempt from the state excise tax on motor fuels; the great majority of taxpayers exempt from this excise tax are farmers.

- Farmers with less than $1,000 gross farm profit are exempt from the state's temporary recycling surcharge, and other noncorporate farms with over $1,000 gross farm profit pay no more than a $25 surcharge. Other non-farm businesses with more than $4,000 of gross business receipts are subject to a surcharge ranging from $25 to $9,800.

- Some farmers are eligible to claim the farmland tax relief credit and/or the farmland preservation credit. The farmland preservation credit offers farmers refundable tax credits for keeping their land in agricultural use, which appears to be the motive behind the proposed tax credits.

- Assessments for agricultural lands in 1996 and 1997 will be frozen at their 1995 levels. Beginning in 1997, a phase-in of assessing agricultural land based on the value of the land in agricultural use (use value assessment) rather than on fair market value will begin.

- Wisconsin, like other states, has an estate tax (referred to as the pickup or gap tax) equal to the maximum federal estate tax credit for state inheritance or estate taxes. This allows the state to capture the maximum credit permitted under federal law. Like the federal tax, Wisconsin's tax affects only those estates greater than $600,000.

  Also, estate taxes may be paid in installments over 14 years if a closely-held business accounts for at least 35% of the gross value. During the first four years after death, only interest is paid; over the final 10 years, tax plus interest is paid.

- Wisconsin allows an exclusion for 60% of long-term gains from the sales or exchange of capital assets in excess of short-term losses. Assets held for more than one year qualify for the exclusion. Depreciable property used in farming would not qualify as capital assets for tax purposes. However, as business (section 1231) gains, they can qualify for the preferential treatment.

The farm industry in Wisconsin already derives substantial benefits through the tax code. Increasing the level of subsidy for this one sector will become problematic for the state if other sectors feel a similar need for subsidies in order to remain economically competitive.

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