



STATE REPRESENTATIVE
DON VRUWINK

WISCONSIN STATE ASSEMBLY

43rd DISTRICT

Testimony of Representative Don Vruwink **Assembly Bill 430**

Before the Assembly Ways & Means Committee
December 17, 2019

Good Morning Chairman Macco and Members of the Committee.

I am here to speak in favor of Assembly Bill 430 and I want to thank you for holding this public hearing today.

This legislation, AB 430, helps correct an omission or oversight related to including crop insurance proceeds in the formula used to calculate the manufacturing and agricultural tax credit. In 2013, when the agricultural credit was implemented, it was probable that insurance proceeds, due to a lost or damaged crop, was not considered.

For many farmers in Wisconsin in 2019, planting was delayed because of extremely wet weather in spring and a wet fall destroying some crops. Some corn and soybeans couldn't be harvested because of standing water in the farm fields.



Some farmers told me that their soybeans actually began molding in the fields, which reduces what they are paid for the beans because low-quality drops the price.

AB 430 will include crop insurance in the definition of "production gross receipts" when making calculations for the manufacturing and agriculture credit (MAC).

-OVER-

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Including crop insurance proceeds should more accurately reflect what was intended when the manufacturing and ag credit (MAC) was created in 2013. This should create a more-fair playing field for farmers who have experienced a loss due to the weather. This will also allow more farmers to use the credit. (MAC).

The fiscal estimate from the Department of Revenue looked at 2016 tax returns and most of those returns did not show significant net farm income tax attributable to agricultural activities. As a result, ag tax credit claims would have increased by a minimal amount.

This year, 2019, should probably have more claims because of the wet weather but it should not be astronomical.

Wisconsin has led the nation in farm bankruptcy this year. Its important farmers get the credit from crop insurance payments they deserve. I encourage you to support AB 430. Thank you.



HOWARD MARKLEIN

STATE SENATOR • 17TH SENATE DISTRICT

December 19, 2019

Assembly Committee on Ways and Means

Testimony on Assembly Bill 430

Good Morning! Thank you Chair Macco and committee members for hearing Assembly Bill 430 (AB 430) that would include crop insurance proceeds in a person's production gross receipts for purposes of the manufacturing and agricultural tax credit (MAC).

AB 430 addresses an unintended consequence of the manner for calculating the MAC as it relates to crop insurance, the federal program designed to offset losses to damaged and/or unplanted crops.

This issue was brought to my attention by Certified Public Accountants (CPA) from the Eau Claire office of Clifton Larson Allen. It was discovered during a review of a client's tax documents that crop insurance payments are not a production gross receipt because it does not involve the disposition of tangible personal property.

Currently the definition of 'production gross receipts' used to calculate the MAC does not include crop insurance payments. Therefore, a farmer who loses all or portions of their crop not only loses proceeds from the sale of their crop, but they would also have a significant reduction in allowable "production gross receipts" used in calculating eligibility for the MAC.

Crop insurance proceeds are counted as taxable income. This means a farmer who recouped part of his loss through a crop insurance payment might have to pay income taxes on that reduced profit. Whereas, a farmer who plants, harvests and sells their crop would be able to include proceeds for purposes of claiming the MAC. We view this change as a technical correction.

Modifying the definition of 'production gross receipts' to include crop insurance payments along with the other types of income already covered by the definition will stop the unfair and counterintuitive denial of the MAC credit to some farmers that receive crop insurance payments. This change is seriously needed this year because unusual weather and delayed planting are likely to result in more crop insurance payments to Wisconsin farmers than normal.

The fiscal estimate prepared by Department of Revenue (DOR) analyzed 2016 tax returns and most of those returns did not show significant net farm income or tax attributable to agricultural activities. Consequently, the provision is expected to increase agricultural tax credit claims by a minimal amount.

Thank you again for hearing AB 430, and your timely action on this proposal.



JAMES W. EDMING

STATE REPRESENTATIVE • 87TH ASSEMBLY DISTRICT

Testimony in Support of Assembly Bill 430

Assembly Committee on Ways and Means

Thursday, December 19, 2019

Mr. Chairman and committee members, thank you for holding this public hearing today and giving me the opportunity to share my support for Assembly Bill (AB) 430. I would like to thank Representative Vruwink and Senator Marklein for working with me on this important legislation.

Agriculture is an important part of our state's heritage, evidenced by the plow in the Great Seal of Wisconsin. It is also an important part of keeping our state's economy strong. It is no secret that many of our farmers face difficulties in today's evolving world. I am sure many of you have heard stories from your constituents, like I have, about the difficulties facing farmers in our state. The last few years have been especially tough on Wisconsin farmers. Unusually wet weather has caused both delayed planting and harvest for farmers across the state. In some locations consistently wet ground has even prevented planting at all. Because of these, as well as other factors, a number of farmers have experienced significant crop loss and have filed claims for crop insurance. While these payments only help cover part of the losses that the farmer has incurred they are still considered taxable income.

Unfortunately, under current law, crop insurance payments are not considered "production gross receipts," which are used to calculate the state's manufacturing and agricultural tax credit (MAC). This means that a farmer who faces crop losses, most times at no fault of their own, and receives a crop insurance payment may have to pay income taxes on that reduced profit, where a farmer who is able to successfully harvest and sell their crop may not. Instead of helping our farmers, this kicks them while they are already down.

AB 430 seeks to correct this issue by including crop insurance in the definition of "production gross receipts" for purposes of claiming the MAC. This change will have a meaningful impact on farmers across our state and help especially tough harvest years become a little more manageable.

Mr. Chairman and members, I ask for your support of AB 430. Please do not hesitate to reach out to me or my office with any questions you may have.



**DAIRY BUSINESS
ASSOCIATION**

**DAIRY
FORWARD**

December 19, 2019

**Assembly Committee on Ways and Means
Testimony in favor of Assembly Bill 430**

Thank you Chairman Macco and committee members for the opportunity to appear today in support of Assembly Bill 430, related to including crop insurance proceeds in the formula used to calculate the manufacturing and agricultural tax credit. My name is Chad Zuleger and I am the Associate director of government affairs with the Dairy Business Association.

I first want to thank the authors of the bill, Rep. Vruwink and Rep. Edming. Their support and understanding of the issue has been very encouraging.

Assembly Bill 430 is about leveling the playing field for farmers who experience damage to, or complete loss of, their crops due to weather or other natural causes. This bill presents an opportunity to correct what seems to be an unintended omission from the way the MAC is calculated. It is also possible that the issue of insurance proceeds, due to a lost or damaged crop, was not contemplated when the MAC was implemented in 2013. In any case, AB 430 addresses an inconsistency and makes the MAC accessible for farmers. The best way to explain what the bill does and how it works is by example:

Farmer A in plants his 100 acres, harvests, sells his crop. The proceeds from the sale of the crop are considered "production gross receipts." The eligible production gross receipts are counted and filed on the schedule MA-A tax form.

By contrast, Farmer B plants her 100 acres. She loses her entire crop because of poor weather. Farmer B purchased crop insurance that paid a portion of what the crop would have been worth. This insurance payment is taxable income, but it does not fit under the definition of "production gross receipts," so Farmer B might be left paying taxes on her insurance payment, unlike Farmer A who was able to avoided paying taxes on their harvest revenue because of the MAC. Farmer B loses out twice.

By changing the statutory definition, only as it relates to crop insurance proceeds, you will address and correct an unintended consequence in state law that negatively impacts farmers who have already lost a portion of, or all, of their harvestable crops.

Thank you again, Chairman Macco and committee members, for your time a consideration of 430. I urge the committee to recommend passage and move the bill forward to the full Assembly.

December 19, 2019

**Assembly Committee on Ways and Means
Public Hearing on Assembly Bill 430
Testimony in support by Amy Penterman**

Good morning Chairman Macco and committee members. My name is Amy Penterman. My husband Sander and I run our dairy farm in Thorp WI. Thank you for holding this public hearing and for allowing me the opportunity to speak in favor of Assembly Bill 430. In addition to running our family's dairy farm, I have been a licensed crop insurance agent for over 22 years. My experience in both farming and insurance sales is what sparked my interest in this legislation.

Crop insurance is a vital tool for farmers to utilize for their risk management needs. Insurance proceeds help mitigate losses due to weather, animal-damage, and a host of other calamities that lead to crop loss. By allowing crop insurance claim payments to count as "production gross receipts" when claiming the Manufacturing and Agriculture tax credit (MAC), farmers who qualify will have a greater opportunity to purchase seed for the next planting season and, maybe more importantly, purchase additional feed for livestock in the current season.

When I sit down with my customers or potential customers, we talk about the different coverage options available to them. The most important point that I stress is that crop insurance is not going to make you a profit. It is a risk management tool that covers losses incurred from acts of mother nature, drought, excess moisture, wind, wildlife amongst other perils, and an option to protect against low commodity prices. As we hear about crop damage and it being 'too wet to plant,' we often hear about claims, or the indemnities paid out. It is very important to remember that farmers are being paid because they had a loss, not because they didn't make a profit. Depending upon the type of coverage purchased, farmers generally take a 25% - 30 % loss before they are even paid.

Following yet another devastatingly wet spring, I have customers that have filed a claim for losses to their prevent plant crops only to be left with an even larger burden of not having feed for their livestock. To make matters even worse, the check they receive from their crop insurance claim will likely not even cover the entire expense needed to purchase feed for next year's crop. Also referencing this wet year, we have late planted crops that are not yielding as expected. For grain farmers, the low yields combined with low prices have many of them are operating in a situation under their cost of production. This same story can be told over and over throughout our state.

AB 430 provides an important safety-valve which will allow farmers, if their gross production receipts rise to the qualifying level for the MAC, who file crop insurance claims the ability the recoup losses. By including crop insurance proceeds in "production gross receipts" when claiming the MAC, farmers have an opportunity to recoup losses due to unforeseen natural circumstances and provide feed for their livestock and being the process of laying seed for the

following growing season. This bill simply allows farmers to use the proceeds from crop insurance, stemming from events beyond their control, the same way under the MAC credit as if they would have had a profitable crop in the harvest year.

In conclusion, I want to thank you, Chairman Macco, for hearing this bill and Rep. Vruwink and Edming for introducing it. I encourage this committee to support AB 430 and move it forward. Thank you for your time and consideration