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Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Manchester and Lightbody

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SUMMARY

- Authorizes a nonrefundable income tax credit for beginning farmers who attend a financial management program.
- Authorizes a nonrefundable income tax credit for individuals or businesses that sell or rent farmland, livestock, buildings, or equipment to beginning farmers.
- Requires the Department of Agriculture, and allows land grant state universities, to certify individuals as beginning farmers.
- Sunsets the credit on the first day of the sixth calendar year following the provision's effective date.
- Limits the total amount of tax credits awarded during that period to \$10 million.

DETAILED ANALYSIS

Tax credits to assist beginning farmers

The bill authorizes two income tax credits: one for beginning farmers that attend a financial management program and another for individuals or businesses that sell or rent farmland, livestock, buildings, or equipment to beginning farmers.

Beginning farmers

Before either credit may apply, an individual must first obtain certification as a beginning farmer. A beginning farmer is an individual who meets all of the following:

1. Intends to farm in Ohio, or has been farming in Ohio for less than ten years.
2. Has a household net worth of less than \$800,000. This limit applies to 2021 and is adjusted for inflation in future years.
3. Provides the majority of the day-to-day labor for and management of the farm.

4. Has adequate farming experience or demonstrates adequate knowledge about farming.
5. Submits projected earnings statements and demonstrates a profit potential.
6. Demonstrates that farming will be a significant source of the individual's income.
7. Participates in a financial management program approved by the Department of Agriculture.
8. Meets any other requirements set by the Department of Agriculture.

There are two ways for an individual to be certified as a beginning farmer. The first way is to apply to the Director of Agriculture or a state university that is designated as a land grant institution under federal law (i.e., the Ohio State University or Central State University) and demonstrate their eligibility under the foregoing criteria. The second way is to obtain a "substantially equivalent" certification from the United States Department of Agriculture. In either case, the certification is valid until the individual no longer meets the eligibility criteria.¹

Tax credit for participation in a financial management program

An individual who holds a valid beginning farmer certification and participates in an approved financial management program may apply to the Director of Agriculture for an income tax credit equal to the cost of attending the program. The application must include the name and address of the financial management program, the date or dates on which the beginning farmer participated, and the cost of attending. If the beginning farmer is eligible and if awarding the credit will not result in the overall cap being exceeded (see below), the Director must issue a tax credit certificate.

The credit is nonrefundable, but if the credit exceeds the beginning farmer's tax liability for the year in which it is claimed, the beginning farmer can carry forward any excess credit for up to three succeeding years.

The bill requires the Director to approve eligible financial management programs and to maintain a list of approved programs on the Department's website. The Director must consult with the land grant colleges in formulating the list. A beginning farmer may also receive the credit for the cost of attending a financial management program approved by the United States Department of Agriculture.²

Tax credit for the sale or rental of farm assets

An individual or business that sells or rents "agricultural assets" to a beginning farmer may also apply to the Director of Agriculture for a tax credit. Agricultural assets include land, livestock, facilities, buildings, and machinery used in farming. In order for land to qualify as an agricultural asset, it must total at least ten acres or produce an average total income of at least

¹ R.C. 901.61(A) and (B); see also, United States Department of Agriculture, [NIFA Land-Grant Colleges and Universities](#).

² R.C. 901.61(C) and (E), 5747.72(B), and 5747.98.

\$2,500 from farming. Equipment dealers and similar businesses that sell agricultural assets for profit are not eligible for the credit.

The application must include the name of the beginning farmer, the date the sale or lease was made, and other financial information about the sale or lease. If the sale or lease is eligible and awarding the credit will not result in the overall credit cap being exceeded (see below), the bill requires the Director to issue a tax credit certificate. The credit equals one of the following:

1. In the case of a sale, 5% of the sale price.
2. In the case of a rental, 10% of the gross rental income that the individual or business received during the first three years of the rental agreement. The bill requires that, to qualify, an asset must be rented at prevailing community rates.
3. In the case of a rental through a share-rent agreement, 15% of the cash equivalent of the gross rental income received during the first three years of the share-rent agreement. (A share-rent agreement is an arrangement by which, in exchange for the rented assets, the beginning farmer provides the owner of the assets with a specified portion of the farm products produced from the assets.)

In the case of a sale, the credit must be claimed in the year of the sale. In the case of a rental, the credit is claimed over the three years of the rental or share-rent agreement. The credit is nonrefundable. However, if the credit exceeds the taxpayer's liability for any year in which it is claimed, the taxpayer can carry forward any excess credit for up to 15 years.³

Cap and sunset

The Director of Agriculture is prohibited from issuing tax credit certificates on or after January 1, of the sixth calendar year beginning after the provision's effective date. Additionally, the aggregate amount of tax credit certificates issued by the Director under the bill must not exceed \$10 million.⁴

Effective date

The credits may be claimed for taxable years beginning on or after the provision's effective date.⁵

³ R.C. 901.61(A) and (D), 5747.72(A), and 5747.98.

⁴ R.C. 901.61(F).

⁵ Section 3 of the bill.

HISTORY

Action	Date
Introduced	02-09-21
