

**MISSOURI TAX REVIEW COMMISSION SUBCOMMITTEE
REPORT AND RECOMMENDATION
COVER SHEET**

Prepared and Approved by: Agriculture and Environment Tax Credit Committee
Submitted to The Missouri Tax Credit Review Commission on: October 22, 2010

Name and Statutory Citation of Credit:

Family Farm Breeding Livestock Loan Program, Sections 348.500 and 348.505, RSMo.

1 Objective, Purpose, and Perceived Beneficial Effects of Credit (e.g., Economic Development/Societal Need Met)

The Family Farm Breeding Livestock Loan Program is intended to promote family farms by allowing a tax credit for lenders in lieu of the first year interest paid on breeding livestock loans made to small farmers.

2 Cost - Benefit Analysis

FY 2009 2.22
FY 2010 4.51 (estimated)

3 Number of Persons: (a) Applying for; and
(b) Utilizing Credit in:

(a) 2009: 62 2010: 50 (estimated)
(b) 2009: 62 2010: 50 (estimated)

4 Fiscal Impact on State in 2009, 2010, 2011, and Estimated Impact in 2012 (Amount in \$\$ of Redemptions), and Total Remaining Unredeemed Credits:

2009: \$141,973 2010: \$104,798 2011: \$45,000 (estimated)
2012: \$40,000 (estimated) Est Amt. Outstanding: \$72,609

5 Recommended Priority Category of Credit (A, B, C, or D): B

6 Recommended Date of Termination if Category D: N/A

7 Attachments Explaining Reasons to Retain Credit:

8 Attachments Explaining Reasons to Terminate Credit:

9 Attachments Explaining Alternatives for Modification of Credit: See attached.

10 Minority Report(s) Attached:

Attachment – Family Farm Breeding Livestock Tax Credit

The Family Farm Breeding Livestock Loan Program is governed by Sections 348.500 and 348.505, RSMo. It provides a tax credit to a lender in lieu of the first year interest payable on breeding livestock loans made to “small farmers” who are Missouri residents and who have less than \$250,000 in gross agricultural product sales per year. The Maximum eligible loan can’t exceed 90% of the cost of purchasing breeding livestock. The maximum loan that can be taken into account is limited further by the type of breeding livestock involved, i.e., for Beef or Dairy cattle the cap is \$75,000; for Sheep or Goats the cap is \$30,000; and for Swine the cap is \$35,000. The credit accrues to an “eligible lender” as defined in Section 348.015 RSMo. (which is basically any commercial lender such as a bank or savings and loan), and not to the farmer. The credit is equal to 100% of the interest “waived by the lender.”

The credit is not refundable, but may be carried forward by the lender for up to 3 years. The credit may be assigned.

The Tax Credit Review Commission is concerned that this credit, as designed, provides the unintended consequence of encouraging a farmer to borrow more and at higher rates than otherwise might be the case. In other words, the credit’s benefit is maximized if the loan is for the full cap amount and at as high of an interest rate as the lender believes will be approved by the Missouri Agricultural and Small Business Development Authority (which administers this program). It also perhaps incentivizes the lender and farmer to “collude” by making the ostensible interest rate in the first year of the loan to be as high as possible and thereafter reduce that rate. However, the program is limited to a maximum of \$300,000 per fiscal year (Section 348.505.2).

The apparent purpose of this credit is to encourage farmers to acquire breeding livestock. It does not seem obvious or relevant to the Commission why this goal should be related to the amount borrowed by a farmer.

Accordingly the Commission has recommended that this credit be restructured. The Commission suggests that the credit be related to the purchase price of the breeding livestock. Based on all tax credits issued since the program started (August 2007 – present), the actual amount of tax credits issued would have been approximately 7.0% (6.99% rounded up) of the total qualifying purchase price. Thus the Commission believes it is reasonable to assume that the same cost to the state and the goals of this credit could be more easily accomplished if the farmer receives the credit, and the credit is limited to 7.0% of the total qualifying purchase price of the eligible breeding livestock, subject to the statute’s existing limits, i.e., the total qualifying purchase price is the lesser of the actual purchase price of eligible livestock or \$75,000 for Beef and Dairy, \$30,000 for Sheep and Goats, and \$35,000 for Swine.