

FIRST REGULAR SESSION
SENATE COMMITTEE SUBSTITUTE FOR
SENATE BILL NO. 177
98TH GENERAL ASSEMBLY

Reported from the Committee on Ways and Means, April 16, 2015, with recommendation that the Senate Committee Substitute do pass.

0197S.07C

ADRIANE D. CROUSE, Secretary.

AN ACT

To amend chapters 143 and 262, RSMo, by adding thereto six new sections relating to programs for beginning farmers.

Be it enacted by the General Assembly of the State of Missouri, as follows:

Section A. Chapters 143 and 262, RSMo, are amended by adding thereto
2 six new sections, to be known as sections 143.2025, 143.2030, 143.2035, 143.2040,
3 143.2045, and 262.599, to read as follows:

**143.2025. As used in sections 143.2025 to 143.2045, the following
2 terms mean:**

3 **(1) "Agricultural assets", agricultural land, depreciable
4 agricultural property, crops, or livestock;**

5 **(2) "Agricultural land", land suitable for use in farming;**

6 **(3) "Beginning farmer", an individual, partnership, family farm
7 corporation, or limited liability company that:**

8 **(a) Has not owned or operated a farm or ranch for more than ten
9 years;**

10 **(b) Does not own a farm or ranch greater than thirty percent of
11 the average size farm in the county as determined by the most current
12 Census for Agriculture;**

13 **(c) Materially participates in the farming or ranching operation;
14 and**

15 **(d) Is a resident of this state;**

16 **(4) "Deduction", an amount subtracted from the taxpayer's
17 Missouri adjusted gross income if the taxpayer is an individual, or
18 federal taxable income if the taxpayer is a corporation, to determine
19 Missouri taxable income for the tax year in which such deduction is**

20 claimed;

21 (5) "Department", the department of agriculture;

22 (6) "Farming", the same as defined in section 350.010;

23 (7) "Livestock", the same as defined in section 265.300;

24 (8) "Material participation", a beginning farmer involved in an
25 agricultural production operation on a regular, continuous, and
26 substantial basis;

27 (9) "Production items", tools, machinery, or equipment
28 principally used to produce agricultural crops or livestock;

29 (10) "Taxpayer", any individual, firm, a partner in a firm,
30 corporation, partnership, shareholder in an S-corporation, or member
31 of a limited liability company subject to the income tax imposed under
32 chapter 143.

143.2030. 1. For all taxable years beginning on or after January
2 1, 2016, a taxpayer shall be allowed a deduction in an amount equal to
3 fifty percent of the income derived from the transfer of agricultural
4 assets to a beginning farmer, to the extent that such amounts are
5 included in federal adjusted gross income or federal taxable income
6 when determining the taxpayer's Missouri adjusted gross income or
7 Missouri taxable income.

8 2. To qualify for the agricultural assets transfer agreement
9 deduction authorized by this section, a taxpayer shall meet the
10 following criteria:

11 (1) Be able to acquire or otherwise obtain or be the lessor of
12 agricultural land in this state;

13 (2) Execute an agricultural assets transfer agreement with a
14 beginning farmer; and

15 (3) Any other criteria required by the department under a
16 promulgated rule.

17 3. For partnerships, limited liability companies, S corporations,
18 estates, or trusts entitled to a deduction and electing to have pass
19 through taxation, the deduction shall be split amongst the individuals
20 entitled to earnings from the entity in proportion to the amount of
21 earnings to which they are entitled.

22 4. The agricultural assets transfer agreement required by this
23 section shall provide for the lease of agricultural land located in this
24 state, including any improvements, and may provide for the rental of

25 **agricultural equipment. The agreement shall:**

26 **(1) Include a lease made on a cash basis or on a commodity share**
27 **basis which includes a share of the crops or livestock produced on the**
28 **agricultural land;**

29 **(2) Be in writing;**

30 **(3) Be for at least seven years; and**

31 **(4) Not be assignable or transferable and the land subject to the**
32 **agreement cannot be subleased.**

33 **5. For an agreement that includes a lease on a cash basis, the**
34 **taxpayer may claim a deduction equal to fifty percent of the gross**
35 **amount paid to the taxpayer under the agreement for each tax year**
36 **that the deduction is allowed.**

37 **6. For an agreement that includes a lease on a commodity share**
38 **basis, the taxpayer may claim a deduction equal to fifty percent of the**
39 **amount paid to the taxpayer from crops or livestock sold under the**
40 **agreement in which the payment is exclusively made from the sale of**
41 **crops or livestock.**

42 **7. The amount of the deduction claimed shall not exceed the**
43 **amount of the taxpayer's Missouri adjusted gross income for**
44 **individuals or the amount of Missouri taxable income for corporations**
45 **for the taxable year for which the deduction is claimed. If the amount**
46 **of the deduction exceeds the individual's Missouri adjusted gross**
47 **income or corporation's Missouri taxable income for the tax year the**
48 **deduction is earned, the taxpayer may request a deduction certificate**
49 **be issued by the department for up to three subsequent tax years to**
50 **allow the taxpayer to claim such excess deduction.**

51 **8. A taxpayer shall not claim a deduction under this section**
52 **unless a deduction certificate issued by the department is attached to**
53 **the taxpayer's tax return for the tax year for which the deduction is**
54 **claimed. The department shall review and approve an application for**
55 **a deduction as provided by rules promulgated by the department. The**
56 **application shall include a copy of the agricultural assets transfer**
57 **agreement. The department may approve an application and issue a**
58 **deduction certificate to a taxpayer who has previously been allowed a**
59 **deduction under this section. The department may require that the**
60 **parties to an agricultural assets transfer agreement meet the same**
61 **qualification as required for an original application. The department**

62 shall not approve an application or issue a deduction certificate to a
63 taxpayer for an amount in excess of four hundred thousand dollars.

64 9. A taxpayer or beginning farmer may terminate an agricultural
65 assets transfer agreement as provided in the agreement or by law. The
66 taxpayer shall immediately notify the department of the termination.
67 If the department determines that the taxpayer is not at fault for the
68 termination, the department shall not issue a deduction certificate to
69 the taxpayer for a subsequent tax year based on the approved
70 application. Any prior deduction is allowed as provided in this
71 section. The taxpayer may apply for and be issued another deduction
72 certificate for the same agricultural assets as provided in this section
73 for any remaining tax year for which a certificate was not issued. If
74 the department determines that the taxpayer is at fault for the
75 termination, any prior deduction allowed under this section is
76 disallowed. The amount of the deduction shall be included as income
77 in the taxpayer's next tax year. If a taxpayer does not immediately
78 notify the department of the termination, the taxpayer shall be
79 conclusively deemed at fault for the termination.

143.2035. 1. For all taxable years beginning on or after January
2 1, 2016, a taxpayer shall be allowed a deduction in an amount equal to
3 fifty percent of the income derived from a custom farming contract
4 with a beginning farmer, to the extent that such amounts are included
5 in federal adjusted gross income or federal taxable income when
6 determining the taxpayer's Missouri adjusted gross income or Missouri
7 taxable income.

8 2. To qualify for the custom farming contract deduction
9 authorized by this section, a taxpayer shall be able to acquire or
10 otherwise obtain or be the lessor of agricultural land in this state and
11 meet any other qualification established by rules promulgated by the
12 department.

13 3. A custom farming contract deduction is allowed only for the
14 amount paid by the taxpayer to a qualified beginning farmer under a
15 custom farming contract as provided in rules promulgated by the
16 department. The contract shall provide for the production of crops
17 located on agricultural land or the production of livestock principally
18 located on agricultural land.

19 4. The custom farming contract shall provide that the taxpayer

20 pay the beginning farmer on a cash basis. The contract shall be in
21 writing and for a term of not more than twelve months. The total cash
22 payment shall equal at least one thousand dollars.

23 5. The taxpayer shall make all management decisions
24 substantially contributing to or affecting the production of crops
25 located on the agricultural land or the production of livestock
26 principally located on the agricultural land. However, nothing in this
27 section prohibits a qualified beginning farmer from regularly or
28 frequently taking part in making day-to-day operational decisions
29 affecting production. The beginning farmer shall provide for all of the
30 following:

31 (1) Production items principally used to produce crops located
32 on the agricultural land or to produce livestock principally located on
33 the agricultural land; and

34 (2) Labor principally used to produce crops located on the
35 agricultural land or to produce livestock principally located on the
36 agricultural land. The beginning farmer shall personally provide such
37 labor on a regular, continuous, and substantial basis.

38 6. A custom farming contract deduction is not allowed if the
39 taxpayer and qualified beginning farmer are related as any of the
40 following:

41 (1) Persons who hold a legal or equitable interest in the same
42 agricultural land, including as individuals or as general partners,
43 limited partners, shareholders, or members in the same business entity;

44 (2) Family members related as spouse, child, stepchild, brother,
45 or sister; or

46 (3) Partners in the same partnership which holds agricultural
47 land, shareholders in the same family farm corporation, or members in
48 the same limited liability company.

49 7. A custom farming contract deduction shall be calculated based
50 on the gross amount paid to the beginning farmer under the custom
51 farming contract. The taxpayer may claim a deduction equal to fifty
52 percent of the gross amount paid to the beginning farmer under the
53 contract for each tax year that the deduction is allowed.

54 8. The amount of the deduction claimed shall not exceed the
55 amount of the taxpayer's Missouri adjusted gross income for
56 individuals or the amount of Missouri taxable income for corporations

57 for the taxable year for which the deduction is claimed. If the amount
58 of the deduction exceeds the individual's Missouri adjusted gross
59 income or corporation's Missouri taxable income for the tax year the
60 deduction is earned, the taxpayer may request a deduction certificate
61 be issued by the department for up to three subsequent tax years to
62 allow the taxpayer to claim such excess deduction.

63 9. A taxpayer shall not claim a deduction under this section
64 unless a deduction certificate issued by the department is attached to
65 the taxpayer's tax return of the tax year for which the deduction is
66 claimed. The department shall review and approve an application for
67 a deduction as provided by rules promulgated by the department. The
68 application shall include a copy of the custom farming contract. The
69 department may approve an application and issue a deduction
70 certificate to a taxpayer who has previously been allowed a deduction
71 under this section. The department may require that the parties to the
72 contract provide additional information as determined relevant by the
73 department. The department shall review an application for a
74 deduction certificate which includes the renewal of a contract to
75 determine that the parties to the renewed contract meet the same
76 qualifications as required for an original application. The department
77 shall not approve an application or issue a deduction certificate to a
78 taxpayer for an amount in excess of four hundred thousand dollars.

143.2040. 1. For all taxable years beginning on or after January
2 1, 2016, in addition to all other modifications allowed by law, there
3 shall be subtracted from the federal adjusted gross income of an
4 individual taxpayer twenty-five percent of the income realized from the
5 sale of land classified as agricultural and horticultural property sold
6 to a beginning farmer, to the extent that such amount is included in
7 federal adjusted gross income when determining such individual's
8 Missouri adjusted gross income.

9 2. If within seven years of being sold, the property which allowed
10 the taxpayer to receive the deduction in subsection 1 of this section
11 ceases to be classified as agricultural and horticultural property or
12 owned by a beginning farmer, the buyer of such property shall include
13 as income in the year such property changes classifications a portion
14 of the deduction previously receive by the seller. The amount such
15 buyer shall include as income shall be equal to number of years

16 remaining until the land has been sold by the seller for seven years
17 divided by seven and then multiply such fraction by the amount of the
18 deduction received by the taxpayer.

19 3. As used in this section, the term "agricultural and
20 horticultural property" shall have the same meaning as defined in
21 section 137.016.

143.2045. 1. The total amount of deductions that may be issued
2 under sections 143.2030 to 143.2035 shall not in the aggregate exceed
3 one hundred million dollars in any fiscal year. Of the aggregate
4 amount, two-thirds shall be allocated for the agricultural assets
5 transfer deduction established in section 143.2030 and one-third shall
6 be allocated for the custom farming contract deduction established in
7 section 143.2035. The department may adjust the allocation amounts to
8 ensure maximum utilization of the deductions but in no event shall
9 more than one hundred million dollars in the aggregate be issued under
10 both programs.

11 2. No taxpayer shall be allowed a deduction authorized under
12 sections 143.2025 to 143.2045 if the relationship between the taxpayer
13 and the beginning farmer would result in the disallowance of losses
14 under section 267 of the Internal Revenue Code of 1986, as amended.

15 3. The department of agriculture shall promulgate rules to
16 implement the provisions of sections 143.2025 to 143.2045. Any rule or
17 portion of a rule, as that term is defined in section 536.010, that is
18 created under the authority delegated in this section shall become
19 effective only if it complies with and is subject to all of the provisions
20 of chapter 536 and, if applicable, section 536.028. This section and
21 chapter 536 are nonseverable, and if any of the powers vested with the
22 general assembly pursuant to chapter 536 to review, to delay the
23 effective date, or to disapprove and annul a rule are subsequently held
24 unconstitutional, then the grant of rulemaking authority and any rule
25 proposed or adopted after August 28, 2015, shall be invalid and void.

262.599. 1. A beginning farmer center is established as a part of
2 the University of Missouri agriculture and natural resources extension
3 program to assist individuals in beginning farming operations. The
4 center shall also assist in facilitating the transition of farming
5 operations from established farmers to beginning farmers, including
6 creating and maintaining an information database inventorying land

7 and facilities available for acquisition, and developing models to
8 increase the number of family farming operations in this state. The
9 objectives of the beginning farmer center shall include, but are not
10 limited to:

11 (1) Providing the coordination of education programs and
12 services for beginning farmer efforts statewide;

13 (2) Assessing the needs of beginning farmers and retiring
14 farmers in order to identify program and service opportunities; and

15 (3) Developing, coordinating, and delivering targeted education
16 to beginning farmers and retiring farm families.

17 2. Programs and services provided by the beginning farmer
18 center shall include, but are not limited to, the development of skills
19 and knowledge in financial management and planning, legal issues, tax
20 laws, technical production and management, leadership, sustainable
21 agriculture, human health, and the environment.

22 3. The beginning farmer center shall submit to the general
23 assembly, annually on or before January first, a report that includes,
24 but is not limited to, recommendations for methods by which more
25 individuals may be encouraged to enter agriculture.

✓

Copy