OLR Bill Analysis

sHB 5492

AN ACT ESTABLISHING A FARM INVESTMENT TAX CREDIT AND CONCERNING THE THRESHOLD FOR CERTAIN OPTIONAL FARM-RELATED PROPERTY TAX EXEMPTIONS.

SUMMARY

This bill creates a corporation business and personal income tax credit for farmers' investments in eligible machinery, equipment, and buildings. The credit is refundable and equals 20% of the amount farmers spend on eligible property.

Under the bill, to be eligible for the credit, taxpayers' income from farming must exceed a specified threshold, and the property they invest in must meet certain criteria and be held and used in-state for at least five years.

The bill prohibits farmers who claim credits under the bill from claiming any other state tax credit for the same investment. It also subjects the credits to potential recapture for the first five years after they are claimed.

The bill also increases the cap on the local option farm machinery tax exemption from $100,000 to $250,000 in assessed value. A municipality may adopt the exemption, by vote of its legislative body, in any amount up to the cap. By law, this exemption applies in addition to the $100,000 state-mandated exemption.

EFFECTIVE DATE: January 1, 2025, and applicable to income and tax years beginning on or after that date, except that the property tax exemption cap increase is effective upon passage.

ELIGIBLE FARMERS

Under the bill, an eligible farmer is a taxpayer in the state whose federal gross income from farming for the income or tax year is at least two-thirds of “excess federal gross income” (i.e., the amount of federal gross income from all sources over $30,000).

The bill allows taxpayers, when determining income eligibility, to use the average of the taxpayer’s federal gross income from farming for the income or taxable year and the two consecutive income or tax years immediately before.

ELIGIBLE PROPERTY

Under the bill, the credit is based on the amount eligible farmers paid or incurred for eligible property in the income or tax year, as applicable. Eligible property (i.e., farm investment property) is machinery, equipment, and buildings or their structural components that meet the following criteria:

1. is located in the state;
2. is purchased by an eligible farmer (for machinery and equipment) or acquired, constructed, reconstructed, or erected by a farmer and placed in service, as applicable, on or after January 1, 2025 (for buildings and their structural components);
3. has a class life of more than four years, as determined under specified IRS rules; and
4. will be held and used in the state by an eligible farmer in the course of “agricultural production” for at least five years after being acquired or placed in service.

Property is not eligible if it is (1) acquired from a related person (e.g., entities controlled by the farmer) or (2) leased or acquired to be leased to another person during the first 12 months after being acquired or placed into service.

Under the bill, agricultural production is engaging in any of the following as a trade or business: (1) raising or harvesting any agricultural or horticultural commodity; (2) dairy farming; (3) forestry;

(4) raising, feeding, caring for, shearing, training, or managing livestock; and (5) raising and harvesting fish, oysters, clams, mussels, or other molluscan shellfish.

CREDIT CLAIMS AND REFUNDS

Under the bill, farmers may claim the tax credits against the corporation business tax or the personal income tax (but not the withholding tax). If the taxpayer is an S corporation or treated as a partnership for federal income tax purposes, the taxpayer's shareholders and partners may claim the credit. If the taxpayer is a single member limited liability company (LLC) that is disregarded for federal tax purposes, the LLC's owner may claim the credit as long as the owner is subject to corporation business or personal income tax.

If a farmer's credit amount exceeds his or her liability, the bill requires the Department of Revenue Services (DRS) commissioner to treat the excess as an overpayment and refund the excess amount to the farmer without interest. By law, and under the bill, the DRS commissioner may withhold tax refunds to pay outstanding liabilities for other taxes and to reimburse the state for certain debts (CGS §§ 12-739 & -742).

RECAPTURE

The bill subjects these credits to potential recapture for five years if the property for which a credit was claimed is no longer held or used in the state for agricultural production.

If this occurs within the first three years after the property's acquisition, the farmer must repay 100% of the credit received for that property on his or her tax return for the income or tax year immediately after the year in which the three-year period expires. If the property is held for more than three years but less than five years after the property was acquired, the farmer must repay 50% of the credit received for that property on his or her tax return for the income or tax year immediately after the year in which the five-year period expires. Recapture payments that are not paid within three months after the income or tax year ends are subject to interest at the rate of 1% per month or partial month.

Under the bill, the recapture requirements do not apply to property for which the farmer received a credit and subsequently replaced.

BACKGROUND

Related Bill

SB 225 (File 180), favorably reported by the Planning and Development Committee, makes motor vehicles qualifying property for the farm machinery property tax exemption.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable
Yea 50 Nay 0 (04/02/2024)