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SFA BILL ANALYSIS

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Senate Bill 692 (as reported without amendment)
Sponsor: Senator Bev Hammerstrom
Committee: Farming, Agriculture and Food Systems

CONTENT

The bill would amend the Natural Resources and Environmental Protection Act to provide that a farmland development rights agreement (FDRA) would terminate automatically when the farmland became subject to a development rights easement. The bill also provides that the owner of farmland would not have to repay seven years of tax credits upon expiration of an FDRA (as otherwise required), if the FDRA were automatically terminated or if the farmland became subject to an agricultural conservation easement or purchase of development rights agreement. In addition, the bill would extend the income tax and single business tax credits (currently available for land subject to an FDRA) to property subject to an agricultural conservation easement or purchase of development rights.

MCL 324.36105 et al. Legislative Analyst: S. Lowe

FISCAL IMPACT

The bill would decrease State revenue by extending the tax credits currently available only to land owners enrolled in an FDRA to land owners who are enrolled in a purchase of development rights (PDR) or an agricultural conservation easement.

The bill would increase the cost of the farmland preservation tax credit, and therefore reduce net income tax revenue, by expanding the tax credit to land owners who transfer from an FDRA to a PDR or an agricultural conservation easement. According to Department of Treasury data, the average tax credit under the FDRA program in 2000 was $2,479. This figure is expected to increase to $4,000 in 2001 as a result of Public Act 421 of 2000, which decreased, from 7% to 3.5%, the income threshold for a land owner to participate in an FDRA.

The Department of Agriculture received over 300 applications for the next round of purchase of development rights and anticipates that 12 to 14 will be selected for funding in 2001. A total of $5 million is available. Using these figures and the estimated 2001 average tax credit of $4,000, the bill would result in a total revenue loss of $48,000 to $56,000 for the next round of PDRs. The actual impact would be based on the household income and property taxes of the land owners selected. Future impacts would depend on the number of PDRs selected for funding and the associated household income and property tax levels. It is estimated that almost all of this loss would affect General Fund/General Purpose revenue.

In addition, the bill would decrease deposits to the Agricultural Preservation Fund by exempting land owners from the repayment requirements when they transfer their property from an FDRA to a PDR. Assuming that 12 to 14 PDRs are selected in 2001, the Fund would lose nearly $200,000, excluding any interest payments for early termination of an FDRA. Again, the future impact would depend on the number of PDRs selected and the associated income and property tax levels. This revenue would not be available for future PDRs.

Date Completed: 11-13-01 Fiscal Analyst: C. Thiel