

FISCAL NOTE
Requested by Legislative Council
03/25/2021

Amendment to: SB 2041

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2019-2021 Biennium		2021-2023 Biennium		2023-2025 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2019-2021 Biennium	2021-2023 Biennium	2023-2025 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2041 with House Amendments changes the law governing the farm residence property tax exemption by modifying the farm gross income test calculation.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of SB 2041 with House Amendments changes the definition of "gross income" for purposes of determining if at least 66% of an individual's gross income is derived from farming for purposes of qualifying for the farm residence property tax exemption. The percentage is calculated by dividing farm gross income by total gross income, as defined for federal income tax purposes. Under current law, gains from the sale or exchange of land, buildings, machinery, and equipment used for farming are not included in farm gross income but are included in total gross income. The bill provides that gains from the sale or exchange of farm machinery and equipment may be removed from total gross income for purposes of calculating the percentage, which will result in a higher percentage.

Note: The change in Section 1 is prompted by a change in federal income tax law relating to reporting gains from the sale or exchange of personal property, which includes farm machinery and equipment. Prior to 2018, gains from the disposition of qualifying personal property generally could be deferred, i.e., not taxed, under the like-kind property exchange rules. This meant that these gains were not included in gross income on the federal income tax return. In 2017, the federal Tax Cuts & Jobs Act made personal property ineligible for the gain deferral under the like-kind exchange rules. Therefore, starting in 2018, a gain from an exchange (or trade-in) of farm machinery or equipment cannot be deferred and must be included in gross income on the federal income tax return.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, SB 2041 with House Amendments will result in residences qualifying for the farm residence property tax exemption that do not currently qualify because a gain from the sale or exchange of farm machinery or equipment

causes the farm gross income percentage to be less than 66%. The number and value of the residences that will be exempted under the provisions of this bill is not known.

Any increase in the number of qualifying farm residence exemptions will not change property taxes overall but will cause a shift in the property tax burden onto other taxable property owners in the taxing district.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*
- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

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Date Prepared: 03/25/2021