

**SUBSTITUTE FOR
SENATE BILL NO. 697**

A bill to amend 1967 PA 281, entitled
"Income tax act of 1967,"
(MCL 206.1 to 206.847) by adding section 279.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 **Sec. 279. (1) Subject to the limitations under this section, a**
2 **taxpayer that is an owner of agricultural assets may claim a credit**
3 **against the tax imposed by this part for the sale of agricultural**
4 **assets to a beginning farmer or the rental of agricultural assets**
5 **pursuant to a qualified rental agreement or share rent agreement to**
6 **a beginning farmer not to exceed the amount certified for that tax**
7 **year by the department, in consultation with the department of**
8 **agriculture and rural development, as follows:**

9 **(a) For the sale of an agricultural asset, 5% of the lesser of**



1 the sale price or the fair market value of the agricultural asset,
2 up to a maximum of \$32,000.00.

3 (b) Subject to subdivision (d), for a qualified rental
4 agreement of an agricultural asset, 10% of the gross rental income
5 in each of the first, second, and third years of a rental
6 agreement, up to a maximum of \$7,000.00 per year.

7 (c) Subject to subdivision (d), for a share rent agreement of
8 an agricultural asset, 15% of the cash equivalent of the gross
9 rental income in each of the first, second, and third years of a
10 share rent agreement, up to a maximum of \$10,000.00 per year.

11 (d) A credit under subdivision (b) or (c) must be calculated
12 based only on gross rental income actually received or accrued,
13 consistent with the taxpayer's method of accounting for federal
14 income tax purposes, during the tax year for which the credit is
15 claimed.

16 (2) A taxpayer shall not claim a credit under this section
17 unless the department, in consultation with the department of
18 agriculture and rural development, has issued a certificate to the
19 taxpayer. The department, in consultation with the department of
20 agriculture and rural development, shall not issue a certificate
21 under this subsection after December 31, 2026. This subsection does
22 not prevent a taxpayer that receives a certificate before January
23 1, 2027 from claiming a credit under this section after December
24 31, 2026.

25 (3) The taxpayer shall attach both of the following to the
26 annual return filed under this act on which a credit under this
27 section is claimed:

28 (a) The certificate required by subsection (2).

29 (b) If the taxpayer is claiming a credit under subsection



1 (1) (b) or (c), proof that the qualified rental agreement or share
2 rent agreement was active during the tax year or portion of the tax
3 year for which the credit was claimed. For purposes of this
4 subdivision, an agreement is not active if the agreement is
5 terminated or the beginning farmer no longer engages in farming.

6 (4) The certificate required by subsection (2) shall state all
7 of the following:

8 (a) That the taxpayer is an owner of an agricultural asset.

9 (b) That the recipient of the agricultural asset is certified
10 by the department of agriculture and rural development as a
11 beginning farmer.

12 (c) The maximum amount of the credit that may be claimed under
13 this section by the owner of the agricultural asset for the
14 applicable tax year or years. For a sale of an agricultural asset,
15 the applicable tax year is the year in which the sale is completed.
16 For a qualified rental agreement of an agricultural asset or a
17 share rent agreement of an agricultural asset, the applicable tax
18 years are the tax years in which the gross rental income
19 attributable to the first, second, and third years of the agreement
20 is received or accrued, consistent with the taxpayer's method of
21 accounting for federal income tax purposes.

22 (d) The taxpayer's federal employer identification number or
23 the Michigan department of treasury number assigned to the
24 taxpayer.

25 (5) The total of all credits approved under this section shall
26 not exceed \$5,000,000.00 per calendar year. However, if the
27 department, in consultation with the department of agriculture and
28 rural development, approves a total of all credits under this
29 section of less than \$5,000,000.00 in a calendar year, the



1 department, in consultation with the department of agriculture and
2 rural development, may carry forward for 1 year only the difference
3 between \$5,000,000.00 and the total of all credits approved under
4 this section in the immediately preceding calendar year or
5 \$1,000,000.00, whichever is less.

6 (6) If the credit allowed under this section exceeds the tax
7 liability of the taxpayer for the tax year, that excess shall not
8 be refunded, but may be carried forward to offset tax liability in
9 subsequent years for 5 years or until it is used up, whichever
10 occurs first.

11 (7) Beginning February 1, 2024 and each February 1 thereafter
12 through the first year in which no certificates issued under
13 subsection (2) remain in effect, the department, in consultation
14 with the department of agriculture and rural development, shall
15 submit an annual report to the chairperson of the senate finance
16 committee and senate agriculture committee, the chairperson of the
17 house tax policy committee and house agriculture committee, the
18 director of the senate fiscal agency, and the director of the house
19 fiscal agency concerning the operation and effectiveness of the
20 credit under this section. The report must include background
21 information on beginning farmers in this state and any other
22 information relevant to evaluating the effect of the credits on
23 increasing opportunities for the number of beginning farmers. The
24 report must also include all of the following:

25 (a) The number and amount of credits issued under subsection
26 (1) (a), (b), and (c).

27 (b) The geographic distribution of credits issued under
28 subsection (1) (a), (b), and (c).

29 (c) The type of agricultural assets for which credits were



1 issued under this section.

2 (d) The number and geographic distribution of beginning
3 farmers whose purchase or rental of assets resulted in credits for
4 the seller or owner of the asset.

5 (e) The number of beginning farmers by geographic region in
6 each calendar year.

7 (f) The number and amount of credit applications that exceeded
8 the allocation available each year.

9 (8) As used in this section:

10 (a) "Agricultural assets" means agricultural land, livestock,
11 facilities, buildings, and machinery used for farming in this
12 state.

13 (b) "Beginning farmer" means an individual who satisfies each
14 of the following:

15 (i) Is a resident of this state.

16 (ii) Is seeking entry, or has entered within the last 10 years,
17 into farming.

18 (iii) Intends to farm land located within the borders of this
19 state.

20 (iv) Is not a family member of the owner of the agricultural
21 assets from whom the beginning farmer is seeking to purchase or
22 rent agricultural assets.

23 (v) Is not a family member of a partner, member, shareholder,
24 or trustee of the owner of agricultural assets from whom the
25 beginning farmer is seeking to purchase or rent agricultural
26 assets.

27 (vi) Has a net worth that does not exceed \$800,000.00. The
28 maximum amount under this subparagraph shall be adjusted annually
29 for inflation by multiplying that amount by the cumulative



1 inflation rate as determined by the United States Consumer Price
2 Index for all urban consumers as defined and reported by the United
3 States Department of Labor, Bureau of Labor Statistics. As used in
4 this subparagraph, "net worth" means the amount remaining after the
5 deduction of liabilities from assets as determined according to
6 generally accepted accounting principles.

7 (vii) Provides the majority of the day-to-day physical labor
8 and management of the farm.

9 (viii) Has, as determined by the department of agriculture and
10 rural development, adequate farming experience or demonstrates
11 knowledge in the type of farming for which the beginning farmer
12 seeks assistance.

13 (ix) Demonstrates to the department of agriculture and rural
14 development a profit potential by submitting projected earnings
15 statements.

16 (x) Asserts to the satisfaction of the department of
17 agriculture and rural development that farming will be a
18 significant source of income for the beginning farmer.

19 (c) "Family member" means the family of an individual as
20 provided under section 267(c)(4) of the internal revenue code.

21 (d) "Farm product" means plants and animals useful to humans
22 and includes, but is not limited to, forage and sod crops,
23 oilseeds, grain and feed crops, dairy and dairy products, poultry
24 and poultry products, livestock, fruits, and vegetables.

25 (e) "Farming" means the active use, management, and operation
26 of real and personal property for the production of a farm product.

27 (f) "Owner of agricultural assets" means an individual, trust,
28 or flow-through entity that is the owner in fee of agricultural
29 land or has legal title to any other agricultural asset. Owner of



1 agricultural assets does not mean an equipment dealer, livestock
2 dealer, or comparable entity that is engaged in the business of
3 selling agricultural assets for profit and that is not engaged in
4 farming as its primary business activity. An owner of agricultural
5 assets approved and certified by the department of agriculture and
6 rural development under this section must notify the department of
7 agriculture and rural development if the owner no longer meets this
8 definition within the tax year.

9 (g) "Qualified rental agreement" means a cash rental agreement
10 for agricultural assets that are rented at prevailing community
11 rates as determined by the department of agriculture and rural
12 development.

13 (h) "Share rent agreement" means a rental agreement in which
14 the principal consideration given to the owner of agricultural
15 assets is a predetermined portion of the production of farm
16 products produced from the rented agricultural assets and that
17 provides for sharing production costs or risk of loss, or both.

