



Ohio's Beginning Farmer Income Tax Credits

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The idea to use income tax incentives to help Ohio's beginning farmers gain access to agricultural assets has floated around the Ohio General Assembly for several years. That idea became a reality when Ohio's Beginning Farmer Bill, House Bill 95, became effective on July 18, 2022. A bi-partisan effort by Rep. Susan Manchester (R-Waynesfield) and Rep. Mary Lightbody (D-Columbus), the law is now in the hands of the Ohio Department of Agriculture (ODA), who is charged with implementing its provisions. ODA expects the new program to be available in 2023.

The Beginning Farmer law has four parts: a process for certifying "beginning farmers," establishment of financial management programs for beginning farmers, income tax credits for certified beginning farmers, and income tax credits and those who sell or lease assets to certified beginning farmers. Note that the law has a "sunset date" of January 1, 2028, and limits total income tax credits granted to \$10 million. Here's a summary of each part of the new law.

1. Certification of beginning farmers. The law charges ODA with the task of certifying individuals as "beginning farmers." Initial eligibility criteria for beginning farmers are listed in the law, but the law also grants ODA authority to create additional

requirements and to seek participation from Ohio State and Central State in the certification process. The law states that to become certified as a beginning farmer, an individual must meet these minimum requirements:

- Resident of Ohio.
- Seeking entry to or has entered farming within the last 10 years.
- Farming or intending to farm in Ohio.
- Is not a partner, member, shareholder, or trustee of the assets the individual is seeking to purchase or rent.
- Has a total net worth of less than \$800,000 in 2021, including spouse and dependent assets, as adjusted for inflation each year.
- Provides majority of daily physical labor and management of the farm.
- Has adequate farming experience or knowledge in the type of farming for which seeking assistance.
- Submits projected earnings statements and demonstrates profit potential.
- Demonstrates farming will be a significant source of income for the individual.
- Participates in a financial management program approved by ODA.

Information about how an individual can apply for the beginning farmer certification is expected from ODA as the agency finalizes its plans for implementing the certification process.

2. Financial management programs for beginning farmers. Certification as a beginning farmer requires that an individual has participated in a financial management program that has been approved by ODA. The purpose of this provision is to help beginning farmers secure the financial management skills necessary for future success. The law requires ODA to establish a procedure for certifying the educational programs individuals can take to meet the certification requirement and allows ODA to also include substantially equivalent financial management programs already approved by USDA. ODA must also publicize the certified programs on its website, so that individuals will know which programs qualify for the certification. ODA is currently developing its procedures for approving financial management programs and will maintain a list of the approved programs on the ODA website.

3. Income tax credits for certified beginning farmer education. The law allows certified beginning farmers to apply for an income tax credit for the cost of participating in an approved financial management educational program. The tax credit will equal the program cost incurred during the calendar year. It is a nonrefundable tax credit, and if it exceeds the beginning farmer's tax liability in the year granted, may carry forward for not more than three succeeding tax years.

4. Income tax credits for owners who sell or rent assets to certified beginning farmers. The new law provides tax credits to owners of "agricultural assets" who sell or rent those assets to a farmer who is a certified beginning farmer. There are several important components to the law:

- The beginning farmer must first be certified.
- The sale of assets must occur during the calendar year the credit is applied for, or for the rental of assets, during the calendar year applied for or in either of the two preceding calendar years.

- The tax credit will be 3.99% of the sale price or of the gross rental income received during a calendar year for a cash or share rental agreement.
- "Agricultural assets" are those used for agricultural production in Ohio, including land (10+ acres in agricultural production or if under 10 acres, earning \$2500 in average annual gross income), livestock, facilities, buildings, and machinery.
- The owner of an agricultural asset cannot be an equipment dealer or an entity in the business of selling assets for profit.
- The certified beginning farmer cannot be a partner, member, shareholder, or trustee with the owner of the assets received.
- Rented assets must be rented at prevailing community rates, as determined by ODA in consultation with Ohio's tax commissioner.
- The tax credit is nonrefundable but may be carried forward for seven succeeding tax years if it exceeds the owner's tax liability.

Time to plan. As we await the final guidance from ODA on how to become certified and apply for the income tax credits in 2023, now is the time for planning. Since this is a limited program, the \$10 million in available tax credits might go quickly and proper timing could be essential. You may need to identify a beginning farmer now who fits the criteria or an owner who wants to sell or rent assets. Review the law with an attorney and accountant, being aware of timing and financial incentives. Although the 3.99% tax credit for those transfers may not sound significant, run the numbers, and see how they could play out. The hope of the new law is that those numbers will be enough to help a beginning farmer gain access to the assets that are critical to farming in Ohio.

The new Beginning Farmer law is in **Ohio Revised Code Section 901.61**, available online at <https://codes.ohio.gov/ohio-revised-code/section-901.61>