# **Department of Finance and Administration**

## **Legislative Impact Statement**

Bill: SB341 Amendment Number: S2 (3/3/15 Engrossment)
Bill Subtitle: TO CREATE AN INCOME TAX EXEMPTION FOR PAYMENTS FROM AGRICULTURAL DISASTER PROGRAMS.

Basic Change: Sponsor: Sen. Irvin

SB341 provides an income tax exemption for payments from agricultural disaster programs; defines agricultural disaster program to mean a program that provides compensation to agricultural producers who have suffered a loss as the result of an emergency, disaster or declining market prices or value. Nine specific disaster relief programs are listed in the bill.

Amendment No. 1 changes the effective date from tax years beginning on or after January 1, 2014 to tax years beginning on or after January 1, 2015. It is further amended to limit payments to compensate for the loss of livestock by an agricultural producer. Amendment No. 2 limits the income tax exemption for agricultural disaster payments received to cattle farmers or cattle ranchers and to specify that expenses for losses related to those payments are not deductible.

## Revenue Impact :

Amount of any revenue impact is impossible to determine. An impact occurs only in drought years. In years with no drought there will be no revenue loss. Based on information provided by the Arkansas Cattlemen's Association, 2 of the last 8 years have qualified for assistance from Agricultural Disaster Programs. Based on historical payments during these years, the cost to state general revenue would be \$140,000 in those drought years when disaster payments are paid.

### Taxpayer Impact :

Cattle farmers and ranchers who receive payments from an agricultural disaster program will not be required to report those payments as taxable income. Affected taxpayers would not be able to deduct expenses related to receiving exempt disaster payments.

### Resources Required :

This bill will require booklet changes and possibly form and computer changes if the exempt income is required to be reported.

#### Time Required :

Adequate time is provided.

## Procedural Changes:

This bill will require booklet changes and possibly form and computer changes if the exempt income is required to be reported. Educate income tax staff and tax community.

#### Other Comments:

The bill does not require that exempt payments be reported on income tax returns.

#### Legal Analysis:

The income tax exemption created for payments from agricultural disaster programs is limited to compensation from an agricultural disaster program to a cattle farmer or cattle rancher who has suffered a loss as the result of an emergency, a disaster, or declining market prices or value. The exemption is limited to program payments made to a cattle farmer or cattle rancher. The amendment clarifies that expenses for losses incurred that are related to payment received from an agricultural disaster program to a cattle farmer or cattle rancher are not deductible or permitted to offset any other income for the tax year in which the loss or expenses are incurred. The new effective date of the act is for tax years beginning on or after January 1, 2015.

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