



FARM Assistance

Focus



Impacts of Proposed Tax Provisions on Texas Agricultural Producers

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“FARM Assistance is a financial planning model used to help producers evaluate alternative management strategies.”

School finance reform and restructuring taxes are two dominant issues of the 79th Texas Legislature. While the state is appealing a court ruling that labeled the current public school funding system inadequate, law makers are pushing to redesign the way schools are funded in Texas. In the name of property tax relief, alternative tax revenue sources are also being considered. As the two issues unfold, agriculture producers in the state are keeping a watchful eye on the potential shifting of tax burdens. This paper estimates the impact of proposed tax provisions on Texas farmers and ranchers. Specifically, the analysis focuses on the farm and ranch participants in Texas Cooperative Extension’s Financial and Risk Management (FARM) Assistance program.

FARM Assistance is a financial planning model used to help producers evaluate alternative management strategies. Data collected and used in individual analyses has led to an extensive database of individual producer data reflecting the program’s clientele in Texas. From this database, 186 operations that recently completed the FARM Assistance program were selected for analysis. Impacts are also estimated for subgroups of producers based on type of production.

The producer types consist of crop farms, livestock ranches, and diversified operations defined as follows:

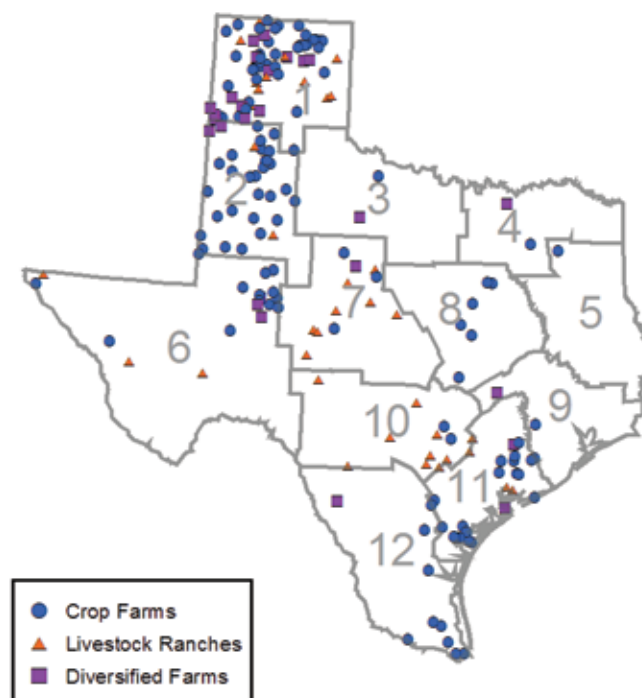
- **Crop Farm:** An operation whose crop enterprise(s) accounts for 75% or more of total receipts
- **Livestock Ranch:** An operation whose livestock enterprise(s) accounts for 75% or more of total receipts
- **Diversified:** An operation that does not meet the criteria for classification as a Crop Farm or Livestock Ranch

Average impacts are also reported by crop enterprise. The 149 crop and diversified operations were further categorized as corn, cotton, grain sorghum, and wheat producers. An operation is classified as a corn producer if corn makes up at least 25% of the planted acres, and similarly for the three other commodities. Several farms fall into more than one category.

Tax Alternatives

Current debate is suggesting a reduction of property taxes that

FARM Assistance Participants by Type of Farm



“The estimated average impact of the gross receipts tax alone would be an increase of \$2659.”

would be offset by a newly structured business tax. Proposals for a business tax vary from a broader enforcement of the existing franchise tax, to a tax based on payroll, and to one based on gross receipts. While some alternatives suggest allowing a business to choose between business taxes, the three provisions analyzed here (a property tax reduction, a payroll tax, and a gross receipts tax) are treated independently to determine the potential impact of each.

Property Taxes changes

Property tax savings result from provisions reducing the maximum school tax rate by \$0.50. Actual savings could be less than \$0.50 for districts not currently at the maximum \$1.50 tax rate. This study assumes a \$0.45 savings on a total property tax bill of \$2.25 per one hundred dollar valuation (including county, city, school M&O, and school I&S). Savings estimates do not include the potential additional taxes allowed by local enhancement provisions. The analysis does not include any change in rental arrangements, lease rates, or land values.

Payroll Tax

A 1.15% payroll tax was assumed for all full-time labor, and salary up to a \$90,000 per person is considered taxable. None of the 186 operations had any employees exceeding the \$90,000 taxable salary limit suggested.

Gross Receipts Tax

The gross receipts tax (see Table 1 for fee schedule) was estimated for each operation based on total receipts, including all product sales, government payments, and crop insurance indemnities.

Business Tax Choices

Provisions allowing for businesses to choose between the payroll tax and the gross receipts tax have been discussed. This analysis treats the two business taxes independently. For 185 of the 186 operations, the gross receipts tax was larger. The one case where the payroll tax was larger, it was only by \$16.

No Exemptions

No exemptions were assumed for the type of business entity when estimating the two business activity tax options. Sole proprietorships, partnership, and corporations were equally subject to the tax provisions.

Rent/Lease Rates

Producers that rent or lease the majority of their land would see little to no immediate tax savings from reduced property tax rates. While lease rates may eventually adjust to reflect lower property taxes, this analysis assumes no change in rental arrangements.

Impacts

Net Cash Farm Income is provided in Table 2 to illustrate the relative impact of the tax provisions. Net cash farm income does not include depreciation or cash obligations such as principal payments on term debts, federal income & social security taxes, and family living expenses. Impacts for individual operations vary beyond the averages reported in Table 2, but on average the property tax reduction would save producers \$867 each year. For individual operations, the property tax savings range from zero to \$9989.

Impacts of the payroll tax range from zero for many individuals to \$3887, but on average the FARM Assistance participants would pay \$331 annually. The gross receipts tax far exceeded the payroll tax in expected impact. The estimated average impact of the gross receipts tax alone would be an increase of \$2659. Individual impacts range from the minimum tax or fee of \$162.5 to the maximum of \$32,500.

Diversified operations, having the highest receipts, would be most impacted by the gross receipts tax. This group also tends to own a larger portion of their productive land and therefore would see the highest savings from property tax reduction. Crop farms and livestock ranches exhibit similar impacts from the gross receipts tax (around \$2450),

“ On average, property tax savings exceed the payroll tax, but fall well short of the estimated gross receipts tax.”

and similar property tax savings of approximately \$750 on average. Impacts of the payroll tax for most operations range from just over \$300 to \$360, but the sorghum and wheat farms with less hired labor would pay closer to \$200 on average.

As defined by the assumptions in this analysis, agricultural producers

would clearly prefer the payroll tax to the gross receipts tax. On average, property tax savings exceed the payroll tax, but fall well short of the estimated gross receipts tax. Combined impacts vary widely for individual producers ranging from a net savings to a net cost under any combination. Combining the property tax savings with the payroll tax created

net impacts ranging from an \$8,035 tax savings to a \$3,279 tax increase, with an average tax savings of \$535 per operation. Combining the property tax savings with the gross receipts tax created net impacts ranging from a \$3,489 tax savings to a \$25,500 tax increase, with an average tax increase of \$1,792 per operation.

Table 1. Gross Receipts Tax Schedule

Gross Receipts Brackets		Fee
-	50,000	162.50
50,000	100,000	325
100,000	250,000	650
250,000	500,000	1,625
500,000	1,000,000	3,250
1,000,000	2,500,000	6,500
2,500,000	5,000,000	16,250
5,000,000	10,000,000	32,500

Table 2. Estimated Annual Impacts of Proposed Tax Provisions on FARM Assistance Program Participant Groups

	Number of operations	Average Annual Total Receipts	Average Annual Net Cash Farm Income	Average Payroll Tax	Average Gross Receipts Tax	Average Property Tax Savings
All Farms & Ranches	186	\$604,814	\$112,891	\$331	\$2,659	\$867
Crop Farms	123	\$544,771	\$129,365	\$326	\$2,482	\$742
Livestock Ranches	37	\$633,168	\$27,552	\$360	\$2,424	\$761
Diversified Operations	26	\$848,512	\$156,401	\$316	\$3,825	\$1,609
Corn	34	\$655,366	\$138,990	\$309	\$3,078	\$767
Cotton	65	\$586,642	\$136,324	\$310	\$2,695	\$662
Sorghum	33	\$388,321	\$85,162	\$224	\$1,783	\$528
Wheat	53	\$560,597	\$135,612	\$194	\$2,434	\$922

**Produced by FARM Assistance, Texas Cooperative Extension,
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