



FARM Assistance

Focus



Impacts of House Bill 3 (79th Legislature) Tax Policy Provisions on Farms and Ranches in Texas

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“For all farms and ranches the average property tax savings \$871 per year. The newly created payroll tax would cost the average FARM Assistance participant \$408 annually.”

The predominant issue facing the 79th Texas Legislature is that of school finance reform and altering state tax provisions that fund public schools. The Texas House of Representatives has passed House Bill 3 (HB3), which primarily lowers property taxes, creates a new business tax, and increases the sales tax rate. The impacts of proposed changes in HB3 are measured here using actual producer data from farmers and ranchers in Texas. Texas Cooperative Extension (TCE) works individually with agricultural producers across Texas in the Financial And Risk Management (FARM) Assistance program to assist them in financial and strategic planning. Data from the FARM Assistance program were used to analyze the impact of these tax policy changes across the state and by producer type.

FARM Assistance is a financial planning model used to help producers evaluate alternative management strategies. As a by-product of the individual analyses, TCE economists have developed an extensive database of individual producer data reflecting the program’s clientele in Texas. From this database, 185 operations from the most recent analyses were selected for this analysis. The 185 farms and ranches were subdivided by type of agricultural 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

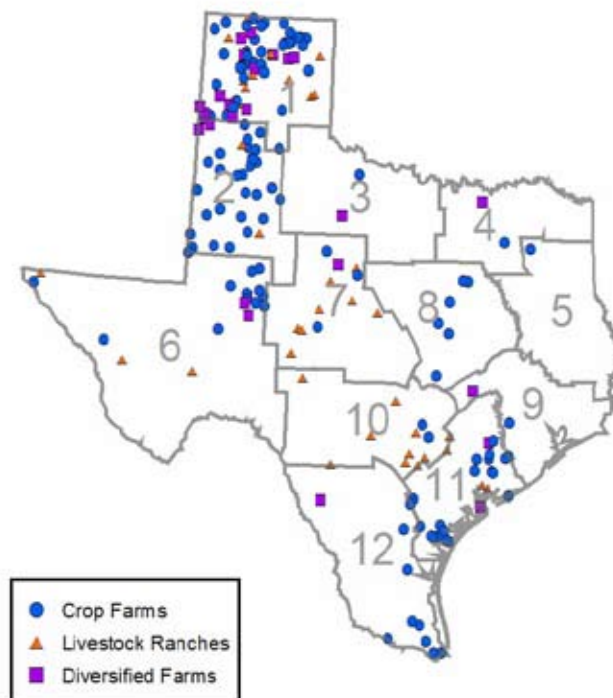
Average impacts are also reported by crop commodity production. The 148 crop and diversified operations were

further categorized as corn, cotton, grain sorghum, and wheat producers. A crop farm is classified as a corn producer if corn makes up at least 25% of the planted acres on the operation, and similarly for the three other commodities. Several farms fall into more than one category.

Assumptions and Definitions

- **Payroll Tax:** the reformed franchise tax establishes a 1.15% tax on all wages that are subject to unemployment compensation. For this analysis the tax is calculated on each farm’s full-time and part-time labor payroll.

FARM Assistance Participants by Type of Farm



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- **Franchise Tax:** The existing franchise tax was calculated for all 185 operations. The tax is assumed to be the greater of 4.5% of Net Farm Income or 0.25% of net worth. None of the 185 operations currently pay the existing franchise tax.
 - **Tax Choices:** HB3 provisions allow for businesses to choose between the newly created reformed franchise tax (payroll tax) and the existing franchise tax. Based on this analysis, 180 of 185 operations would choose to pay the payroll tax.
 - **Exemptions:** No exemptions were assumed for the type or size of business entity when estimating both the payroll tax and the existing franchise tax. Sole proprietorships, partnership, and corporations were treated equally.
 - **Property Tax:** 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.
 - **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.
 - **Sales Tax:** Farm expenses are excluded from sales taxes; therefore the analysis assumes no impact for the HB3 increase in sales tax. Family living expenses would be expected to increase with higher sales tax rates, but no estimates for that increase are included in the analysis.
 - **Net Farm Income:** Net Farm Income is provided in Table 1 to illustrate the relative impact of the tax provisions. Net farm income does not include other cash obligations such as principal payments on term debts, federal income & social security taxes, and family living expenses.
- Average annual impacts of the proposed tax provisions on FARM Assistance participants are provided in Table 1. For all farms and ranches the average property tax savings \$871 per year. The newly created payroll tax would cost the average FARM Assistance participant \$408 annually. However, the average tax paid is slightly less, at \$397 per year, because five of the operations would choose to pay their business tax under the provisions of the existing franchise

tax. Combining the property tax savings and the business tax paid results in an average net tax savings for 125 of the 185 farms and ranches. The average net impact is a \$475 annual savings.

Impacts for individual operations vary beyond the averages reported in Table 1. For individual operations: property tax savings range from zero to \$9989, the business tax paid allowing for the opportunity to choose the franchise tax or the payroll tax, ranged from zero to \$4,530. Combining the property tax savings with the business tax created net impacts ranging from a \$7,506 tax savings to a \$4,314 tax increase, with an average tax savings of \$475 per operation.

Impacts also vary based on the type of operation. Diversified operations pay the largest business tax. These producers tend to be larger in size and generally own a larger percentage of their productive acres compared to crop farms. The relatively higher property investment translates into a more significant property tax savings. The net effect suggests that diversified producers would see the greatest benefit from the HB3 tax provisions with a \$975 tax savings. Crop and livestock producers would see similar impacts. Both groups would expect around \$360 in additional business taxes. A property tax savings of roughly \$760 results in a net \$400 savings for both crop and livestock producers. Only the livestock group shows

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a notable benefit from the option to pay the existing franchise tax based on net worth or net profits. The option reduces the average tax paid by \$50 per operation relative to paying the payroll tax.

Among the producers of specific crop commodities, the higher value crops of cotton and corn would be expected to pay the highest business tax, at just over \$360. Sorghum and wheat production, being less labor intensive, pay approximately \$100 less in new business taxes. The wheat farms are expected to realize a \$922 property

tax savings and a net savings after business taxes of \$660 annually. The cotton producing participants would see the least tax savings from HB3, with just over half of the 65 producers having a net savings, and an average savings of \$282. Sorghum producers would see a slightly higher net savings of \$295, while corn producers’ savings would just exceed \$400 on average.

Summary

The majority (68%) of FARM Assistance participants would see a net tax

savings as a result of the tax provisions included in House Bill 3. The immediate impact of the proposed tax changes creates an average \$475 annual savings per operation. Beyond the immediate changes, minimal impacts are expected from; slight downward pressure on land rental rates creating additional savings for tenant producers and higher sales tax rates increasing family living expenses for farm and ranch families.

Table 1. Estimated Impacts of HB3 Tax Provisions on FARM Assistance Program Participant Groups

	Number of operations	Average Net Farm Income	Average Payroll Tax	Average Tax Paid, Choosing Payroll or Franchise Tax	Average Property Tax Savings	Operations With Estimated Net Savings	Average Net Impact
All Farms & Ranches	185	\$83,841	\$408	\$397	\$871	125	-\$475
Crop Farms	121	\$105,726	\$368	\$366	\$752	80	-\$386
Livestock Ranches	37	\$21,242	\$410	\$360	\$761	24	-\$401
Diversified Operations	27	\$71,549	\$582	\$582	\$1,557	21	-\$975
Corn	34	\$117,232	\$362	\$362	\$767	26	-\$406
Cotton	65	\$114,332	\$382	\$381	\$662	35	-\$282
Sorghum	32	\$55,417	\$255	\$250	\$545	24	-\$295
Wheat	53	\$99,945	\$263	\$262	\$922	42	-\$660

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