OLR Bill Analysis
sHB 7175

AN ACT ESTABLISHING A FARM INVESTMENT TAX CREDIT AND INCREASING THE FARM MACHINERY PROPERTY TAX EXEMPTION AMOUNT.

SUMMARY

This bill creates a refundable business tax credit for farmers' investments in eligible machinery, equipment, and buildings. The credit equals 20% of the amount a farmer spends or incurs on this eligible property and may be applied against the corporation business or personal income taxes. The bill sets eligibility criteria for credit-eligible investments and requires farmers to derive a specified percentage of their total income from farming in order to qualify. It also requires all or part of the credit to be repaid under certain conditions for five years after the property is acquired.

The bill also increases, from $100,000 to $250,000 in assessed value, the mandatory property tax exemption for farm machinery, other than motor vehicles. As under existing law, municipalities may exempt up to an additional $250,000 in assessed value for farm machinery by local option. By law, to qualify for the farm machinery exemptions, farmers must individually or as a part of a group, partnership, or corporation derive at least $15,000 per year in gross sales from the farming operation or have incurred at least $15,000 in farm-related expenses in the most recent tax year before the assessment year to which the exemption applies.

EFFECTIVE DATE: January 1, 2026, and applicable to income and tax years beginning on or after that date, for the tax credit provision; October 1, 2025, and applicable to assessment years beginning on or after that date, for the property tax exemption cap increase.

FARM INVESTMENT TAX CREDIT

Eligible Farmers

Under the bill, a farmer is eligible for the credit if he or she is a Connecticut taxpayer whose federal gross income from farming for the income or tax year is at least two-thirds of their federal gross income from all sources over $30,000 (i.e. "excess federal gross income"). Taxpayers may use a three-year average when determining their income eligibility, calculated using their federal gross income from farming for the respective income or tax year and the two previous consecutive years.

Eligible Property and Agricultural Production

Under the bill, the credit is 20% of the amount eligible farmers paid or incurred for eligible property in the applicable income or tax year. Eligible property ("farm investment property") includes:

1. machinery and equipment purchased by an eligible farmer on or after January 1, 2026, and

2. buildings and structural components an eligible farmer acquired, constructed, reconstructed, or erected and placed in service on or after that date.

In either case, the farm investment property must (1) be located in the state; (2) have a class life of more than four years, as determined under specified IRS rules; and (3) be held and used in the state by an eligible farmer in the course of "agricultural production" for at least five years after being acquired or placed in service. Property is not eligible if it is (1) acquired from a related person (e.g., other business entities controlled by the farmer) or (2) leased or acquired to be leased to another person during the first 12 months after being acquired or placed into service.

Under the bill, agricultural production is engaging in any of the following as a trade or business: (1) raising or harvesting any agricultural or horticultural commodity; (2) dairy farming; (3) forestry; (4) raising, feeding, caring for, shearing, training, or managing livestock;

or (5) raising and harvesting fish, oysters, clams, mussels, or other molluscan shellfish.

Credit Claims and Refunds

Under the bill, farmers may claim the tax credit against the corporation business tax or the personal income tax (but not the withholding tax). They may not claim any other state tax credit for the same acquisition.

If the taxpayer is an S corporation or treated as a partnership for federal income tax purposes, the taxpayer's shareholders and partners may claim the credit. If the taxpayer is a single member limited liability company (LLC) that is disregarded for federal tax purposes, the LLC's owner may claim the credit as long as the owner is subject to corporation business or personal income tax.

If a farmer's credit amount exceeds his or her tax liability, the Department of Revenue Services commissioner must treat the excess as an overpayment and refund the excess amount to the farmer without interest. By law, and under the bill, the commissioner may withhold tax refunds to pay outstanding liabilities for other taxes and to reimburse the state for certain debts.

Credit Recapture

The bill imposes a credit recapture requirement that applies for five years after the property is acquired. Specifically, the farmer must repay (1) 100% of the credit if the property is no longer held or used in the state for agricultural production within the first three years after it was acquired or (2) 50% of the credit if this occurs within the next two years. The farmer must repay the recaptured amount on his or her tax return for the income or tax year immediately after the year in which the three- or five-year period expires, as applicable.

Recapture payments that are not paid within three months after the income or tax year ends are subject to interest at the rate of 1% per month or partial month. Under the bill, the recapture requirements do not apply to property for which the farmer received a credit and that was subsequently replaced.

BACKGROUND

Related Bill

sSB 1246, § 47, favorably reported by the Finance, Revenue and Bonding Committee, contains an identical provision establishing an income tax credit for farmers' investments in eligible machinery, equipment, and buildings.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute				
Yea	52	Nay	0	(04/24/2025)