

Tax Incentives for Farmers

Agricultural Assessments

(Partial Reduction in Real Property Taxes for Eligible Farmland in NYS)
As of January 2002

The State Legislature initially enacted the New York Agricultural Districts Law in 1971 to protect and promote the availability of land for farming purposes. Subsequent amendments have broadened its scope. The law provides a locally initiated mechanism for the creation of agricultural districts. The formation of agricultural districts is intended to counteract the impact which nonfarm development can have upon the continuation of farm businesses.

Briefly, agricultural districts provide the framework to limit unreasonable local regulation of farm practices, to modify public agencies' ability to acquire farmland through eminent domain, and to modify the right to advance public funds to construct facilities that encourage development. The law also requires state agencies to modify their administrative regulations and procedures to encourage the continuation of farm businesses. Right to Farm provisions provide protection from private nuisance suits for land in agricultural districts and parcels receiving agricultural assessments outside districts.

Benefit assessments, special *ad valorem* levies, or other rates and fees for the finance of improvements such as water, sewer or nonfarm drainage may not be imposed upon land used in agricultural production and within an agricultural district unless such charges were imposed prior to the formation of the agricultural district. The governing body of a fire, fire protection or ambulance district may approve the use of agricultural assessments for their district charges.

The Agricultural Districts Law also provides for reduced property tax bills for land in agricultural production by limiting the assessment of such land to its prescribed agricultural assessment value. Owners whose land satisfies the eligibility requirements may apply for an agricultural assessment.

For more information, visit the New York State Office of Real Property Services at www.orps.state.ny.us

What is STAR?

Gov. George Pataki's \$2.6 billion School Tax Relief (STAR) program was enacted with the 1997-8 budgets to provide New Yorkers with a school tax cut phased in over a four-year period. The initiative lowers school taxes for New York's homeowners through a state-funded property tax exemption and additional local personal income tax cuts in New York City. STAR provides seniors who have incomes of \$60,000 or less with an enhanced exemption of at least \$50,000 from the full value of their primary residence for

school tax purposes. A bill is pending in the state Senate to raise the eligibility level to \$62,100. Other homeowners are eligible for a basic STAR exemption, which started with \$10,000 in 1999-2000, grew to \$20,000 in 2000-01 and reaches \$30,000 in 2001-02.

Upon achieving full implementation in the 2001-02 school year, STAR is expected to provide a projected \$2 billion in school property tax relief to homeowners. In addition, officials hope the program will provide \$560,000 million in local personal income tax relief to New York City residents, in recognition of the city's reliance on taxes and other than the property tax to fund its schools.

Co-STAR for seniors and farmers

Pataki is proposing a \$230,000 million Co-STAR tax cut for county taxpayers, modeled after the STAR school tax reduction program. State officials say Co-STAR, which will target 700,000 income-eligible senior homeowners and farmers across the state, would save a senior more than \$300 and a farmer more than \$200 each year, on average, and cut the New York City personal income tax for married senior couples by \$120 and \$60 for individual seniors each year.

When fully phased in, Co-STAR would eliminate the county taxes paid by as many as 200,000 seniors and farmers. When Co-STAR is combined with the original STAR program, the average senior homeowner would avoid more than \$1,200 in local property taxes each year, and the average farmer would avoid more than \$800 annually. In New York City, when Co-STAR is combined with the original STAR program, seniors would pay approximately 15 percent less in city income taxes.

Seniors who qualify for the Enhanced STAR exemption are eligible to receive a state-funded full value exemption of at least \$50,000 from the taxable value of their primary residence for county tax purposes. The exemption would be phased in over five years, starting with a \$10,000 exemption from 2002 county taxes. Recipients would receive the tax relief as rebate checks from the state after county taxes are paid. Most farm residences would receive a \$30,000 exemption from county taxes, phased in over three years beginning in 2002-3.

STAR program slated to continue

The full tax cut for income-eligible seniors was accelerated by Pataki in the 1998-99 budget, eliminating the phase-in period and allowing more than 600,000 senior homeowners to avoid \$500 million in school taxes in 1998. New York City income tax cuts for seniors were also accelerated, eliminating an additional \$85 million in 1998 taxes for New York City seniors.

In 2000-01, taxes are being reduced by \$1.9 billion as the full STAR property tax exemptions for seniors continue, other homeowners became eligible for the second phase of the basic STAR exemption, and additional reductions of New York City's income tax are beginning. More than 668,000 seniors were expected to avoid taxes of an average of \$880 each through STAR exemptions in 2000; more than 2.2 million other homeowners saw tax relief of an average of \$400 each.

The 2001-02 executive budget provides for \$2.6 billion in tax exemptions from STAR –a \$700 million increase from 2000-01. Eligible senior homeowners will continue to receive at least a \$50,000 exemption, and the STAR exemption for other homeowners will increase from \$20,000 to \$30,000.

Both seniors and non-seniors in New York City will continue to be eligible for an additional tax credit, and city income tax rates will continue to be reduce.

More STAR Information

STAR estimates by school district can be found through the governor's STAR web site, www.state.ny.us/. Estimates can be searched by school district name or home address. More information about STAR, including application forms and instructions, is offered at the state Office of Real Property Services (ORPS) web site.

Farm Building Exemptions

(For Newly Constructed or reconstructed structures, certain limited use agricultural structures, historic barns and temporary greenhouses)

As of January 2002

For newly constructed or reconstructed agricultural structures, New York's Real Property Tax Law (RPTL Section 483) allows a 10-year property tax exemption. Application for the exemption must be made within one year after the completion of such construction. The agricultural structures and buildings will be exempt from any increase in property's assessed value resulting from the improvement.

Once granted, the exemption continues automatically for ten years. The exemption will terminate before the ten-year period if (1) the building or structure ceases to be used for farming operations, or (2) the building or structure or land is converted to a nonagricultural or non-horticultural use.

For certain limited-use agricultural structures and temporary greenhouses, the Real Property Tax Law (Sections 483-a and 483-c respectively) provides a permanent exemption. For Historic Barns, Sections 483-b provides a sliding scale exemption.

For more information, visit the New York State Office of Real Property Services at www.orps.state.ny.us

Sales Tax

Veterinarian Services

Exempt veterinarian services include hospitalization but exclude other services provided by a veterinarian such as boarding, grooming, and clipping.

Farm Production

This exemption includes:

- Tangible personal property and building materials used predominantly in farm production.
- Utility services used in farm production.
- Services provide to farm equipment and farm real property.
- Motor vehicles used in farming.

Corporate and Personal Income Taxes

Farmers' School Tax Credit

To help preserve New York State's farming industry, taxpayers primarily engaged in farming may claim a refundable credit equal to 100% of total school property taxes paid on qualified New York agricultural property. To qualify, taxpayers must earn 2/3 of their federal income from farming. The credit phases out for taxpayers with New York adjusted gross income or entire net income in excess of \$100,000 (after subtracting principal on farm indebtedness). Corporate franchise taxpayers and personal income taxpayers may claim the credit.

Historic Barn Rehabilitation Credit

To help preserve the State's farming traditions, taxpayers may claim a credit for 25% of the taxpayer's qualified expenditures to rehabilitate historic barns. No credit is allowed for a barn converted to a residence or for a barn whose historic appearance has been materially altered. The barn must have been placed in service prior to 1936 or must otherwise be a certified historic structure. Corporate franchise taxpayers and personal income taxpayers may claim this credit.

Credit for Employing Individuals with Disabilities

To promote the full participation of disabled individuals in society, New York State allows taxpayers who employ individuals with disabilities to claim a credit (a maximum of \$2,100 per employee) for certain percentage of qualified first-year wages or qualified second-year wages paid to an employee. To qualify for the credit, an employee must work for the employer on a full-time basis for at least 180 days or 400 hours and must be certified as disabled by the State Education Department. Visually handicapped employees may receive certification from the appropriate agency responsible for vocational rehabilitation of the blind and visually handicapped. Corporate franchise taxpayers, utilities, banks, insurance companies, and personal income taxpayers may claim the credit.

Investment Tax Credit (ITC)/ Employment Incentive Credit (EIC)

ITC for Manufacturers

General business corporation taxpayers or personal income taxpayers may claim an investment tax credit (ITC) for equipment or buildings used in the production of goods. Corporation franchise taxpayers may claim the ITC for the cost of qualified investment

expenditures, including buildings and structural components of buildings, which are depreciable, have a useful life of four years or more, are located within the State, and are used principally for the production of goods. The credit is 5 percent of up to \$350 million of such expenditures and 4 percent for such expenditures in excess of \$350 million. Certified pollution control, industrial waste treatment, and acid rain control facilities also qualify for this credit. Eligible costs also include those associated with real enterprises' investments in qualified rehabilitated buildings. Research and development (R&D) property may qualify for an option rate of 9 percent.

ITC for Financial Services

Broker/dealers in securities may claim an investment tax credit (ITC) for equipment or buildings used in broker/dealer activity and in activities connected with the broker/dealer operations (e.g., providing investment advice and lending activities associated with the purchase and sale of securities). The credit also extends to national security exchanges between October 1, 1998 and September 30, 2003. Corporation franchise taxpayers and bank taxpayers may claim the ITC for 5 percent of the cost of qualified investment expenditures of up to \$350 million and 4 percent for such expenditures in excess of \$350 million.

ITC for Insurers

An insurance company who is a securities and commodities broker can claim an investment tax credit (ITC) for tangible property used in the course of its broker/dealer activities. The credit also extends to taxpayers that lease property to an affiliated broker/dealer. The property must be depreciable and have a useful life of four years or more. The taxpayer must have substantially all of the employees using the qualified property located in New York. The credit may be claimed at 5% for the first \$350 million of qualified investment expenditures and 4% for expenditures over \$350 million. The credit applies to property placed in service between January 1, 2002 and September 30, 2003.

Additional ITC & EIC

Employers that qualify for an ITC (for manufacturers or financial services) and increase employment by at least 1 percent above its employment in the year before it made investment (base year) may claim an employment incentive credit (EIC) for the next two succeeding years. The EIC rate ranges from 1.5 percent of the investment tax credit base to 2.5 percent, depending on the level of increase employment over the base year. General business corporations may claim this credit but banking corporations may not. Personal income taxpayers who claim ITC (for manufacturers or financial services) and increase their number of employees may be eligible for the EIC with respect to property acquired or constructed on or after January 1, 1997. This credit applies to property that is eligible for the investment tax credit. The EIC rate ranges from 1.5 percent of the investment tax credit base to 2.5 percent, depending on the level of increased employment over the base year.

Petroleum Business Tax

Residential Heating Exemption

Home heating oil and residual fuel oil sold to a consumer exclusively for residential heating purposes are exempt from the petroleum business tax.

Exemption of Fuel Used for Farm Production

The sale or use of diesel motor fuel and residual fuel oil for off-highway farm production of goods for sale is exempt from the petroleum business tax.