DAIRY BUSINESS ASSOCIATION | DAIRY FORWARD

September 10, 2019

**Senate Committee on Agriculture, Revenue and Financial Institutions**

Testimony in favor of Senate Bill 387

Thank you Chairman Marklein and committee members for the opportunity to appear today in support of SB 387, related to including crop insurance proceeds in the formula used to calculate the manufacturing and agricultural tax credit.

I appear today with DBA member and Vice-President, Amy Penterman, who, in addition to being a first-class dairy farmer, also serves our dairy and ag communities as a crop insurance agent. Amy will talk about some of her experiences in the business side of crop insurance and share how important it is to level the playing field for farmers who experience damage to, or complete loss of, their crops due to weather or other natural causes.

SB 387 is an opportunity to correct what seems to be an unintended omission from the way the MAC is calculated. It is also possible that insurance proceeds, due to a lost or damaged crop, was not contemplated when the MAC was implemented in 2013. In any case, SB 387 addresses an inconsistency and makes the MAC was accessible for farmers. The best way to explain what SB 387 does is by example:

> *Farmer A in plants his 100 acres, harvests, sells his crop. The proceeds from the sale of the crop are considered "production gross receipts." The eligible production gross receipts are counted and filed on the schedule MA-A tax form.*
>
> *By contrast, Farmer B plants her 100 acres. She loses her entire crop because of poor weather. Farmer B purchased crop insurance that paid a portion of what the crop would have been worth. This insurance payment is taxable income, but it does not fit under the definition of "production gross receipts," so Farmer B might be left paying taxes on her insurance payment, unlike Farmer A who was able to avoided paying taxes on their harvest revenue because of the MAC. Farmer B loses out twice.*

By changing the statutory definition, only as it relates to crop insurance proceeds, you will address and correct an unintended consequence in state law that negatively impacts farmers who have already lost a portion of, or all, of their harvestable crops.

Thank you again, Chairman Marklein and committee members, for your time a consideration of SB 387. I urge the committee to move the bill forward to the full senate.

October 10, 2019

**Senate Committee on Agriculture, Revenue and Financial Institutions**
**Public Hearing on Senate Bill 387**
**Testimony in support by Amy Penterman**

Good morning Chairman Marklein and committee members. My name is Amy Penterman. My husband Sander and I run our dairy farm in Thorp WI. Thank you for holding this public hearing and for allowing me the opportunity to speak in favor of Senate Bill 387. In addition to running our family's dairy farm, I have been a licensed crop insurance agent for over 22years. My experience in both farming and insurance sales is what sparked my interest in this legislation.

Crop insurance is a vital tool for farmers to utilize for their risk management needs. Insurance proceeds help mitigate losses due to weather, animal-damage, and a host of other calamities that lead to crop loss. By allowing crop insurance claim payments to count as "production gross receipts" when claiming the Manufacturing and Agriculture tax credit (MAC), farmers who qualify will have a greater opportunity to purchase seed for the next planting season and, maybe more importantly , purchase additional feed for livestock in the current season.

When I sit down with my customers or potential customers, we talk about the different coverage options available to them. The most important point that I stress is that crop insurance is not going to make you a profit. It is a risk management tool that covers losses incurred from acts of mother nature, drought, excess moisture, wind, wildlife amongst other perils, and an option to protect against low commodity prices. As we hear about crop damage and it being 'too wet to plant,' we often hear about claims, or the indemnities paid out. It is very important to remember that farmers are being paid because they had a loss, not because they didn't make a profit. Depending upon the type of coverage purchased, farmers generally take a 25% - 30 % loss before they are even paid.

Following yet another devastatingly wet spring, I have customers that have filed a claim for losses to their prevent plant crops only to be left with an even larger burden of not having feed for their livestock. To make matters even worse, the check they receive from their crop insurance claim will likely not even cover the entire expense needed to purchase feed for livestock or seed for next year's crop. Also referencing this wet year, we have late planted crops that are not yielding as expected. For grain farmers, the low yields combined with low prices have many of them are operating in a situation under their cost of production. This same story can be told over and over throughout our state.

SB 387 provides an important safety-valve which will allow farmers, if their gross production receipts rise to the qualifying level for the MAC, who file crop insurance claims the ability the recoup losses. By including crop insurance proceeds in "production gross receipts" when claiming the MAC, farmers have an opportunity to recoup losses due to unforeseen natural circumstances and provide feed for their livestock and being the process of laying seed for the following growing season. This bill simply allows farmers to use the proceeds from crop insurance, stemming from events beyond their control, the same way under the MAC credit as if they would have had a profitable crop in the harvest year.

In conclusion, I want to thank you, Sen. Marklein, for introducing this bill and for scheduling this hearing. I encourage this committee to support SB 387 and move it forward. This concludes my prepared remarks. Thank you for your time and consideration. I am happy to try and answer any questions you may have.

# HOWARD MARKLEIN

STATE SENATOR • 17TH SENATE DISTRICT


## October 10, 2019
## Senate Committee on Agriculture, Revenue and Financial Institutions
## Testimony on Senate Bill 387

Good Morning! Thank you committee members for hearing Senate Bill 387 (SB 387) that would include crop insurance proceeds in a person's production gross receipts for purposes of the manufacturing and agricultural tax credit (MAC).

SB 387 addresses an unintended consequence of the manner for calculating the MAC as it relates to crop insurance, the federal program designed to offset losses to damaged and/or unplanted crops.

This issue was brought to my attention by Certified Public Accountants (CPA) from the Eau Claire office of Clifton Larson Allen. It was discovered during a review of a client's tax documents that crop insurance payments are not a production gross receipt because it does not involve the disposition of tangible personal property.

Currently the definition of 'production gross receipts' used to calculate the MAC does not include crop insurance payments. Therefore, a farmer who loses all or portions of their crop not only loses proceeds from the sale of their crop, but they would also have a significant reduction in allowable "production gross receipts" used in calculating eligibility for the MAC.

Crop insurance proceeds are counted as taxable income. This means a farmer who recouped part of his loss through a crop insurance payment might have to pay income taxes on that reduced profit. Whereas, a farmer who plants, harvests and sells their crop would be able to include proceeds for purposes of claiming the MAC. We view this change as a technical correction.

Modifying the definition of 'production gross receipts' to include crop insurance payments along with the other types of income already covered by the definition will stop the unfair and counterintuitive denial of the MAC credit to some farmers that receive crop insurance payments. This change is seriously needed this year because unusual weather and delayed planting are likely to result in more crop insurance payments to Wisconsin farmers than normal.

The fiscal estimate prepared by Department of Revenue (DOR) analyzed 2016 tax returns and most of those returns did not show significant net farm income or tax attributable to agricultural activities. Consequently, the provision is expected to increase agricultural tax credit claims by a minimal amount.

Thank you again for hearing SB 387, and your timely action on this proposal.


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