Guidance Regarding "Farm Investment Property" Tax Credits

Purpose: The purpose of this publication is to provide guidance as to the scope and application of two tax credits that were recently enacted by the General Assembly. Each of these provisions, which are codified in Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww, respectively, provide a tax credit for each "eligible farmer" that purchases "farm investment property." This publication will provide guidance as to the scope and application of each of these credits, including guidance as to the types of items that will qualify as "farm investment property."

The General Assembly enacted two "farm investment property" tax credits: During its 2025 regular session, the General Assembly enacted two "farm investment property" tax credits. Under these credits, which are codified in Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww, an "eligible farmer" that purchases "farm investment property" will be eligible to earn a credit that is based on the amount said farmer spent or incurred to purchase or acquire said property. Although the General Assembly enacted two separate credits, the statutory language of these tax credit provisions is virtually identical.

In most tax credit statutes enacted by the General Assembly, said statutes identify the entities or persons who are eligible to earn a credit and prescribe the type of activities or expenditures said entities or persons must make in order to earn a credit. Typically, these tax credit provisions also contain a series of defined terms. Both Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww follow this typical statutory framework. To that end, under both Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww an "eligible farmer" that purchases "farm investment property" will be eligible to earn a credit that is based on the amount said "eligible farmer" spent or incurred to purchase or acquire said property. Both Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww contain identical definitions of the terms "eligible farmer"[1] and "farm investment property." Additionally, both Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww contain definitions of the terms "excess federal gross income," "agricultural production," "related person," and "control." Each of these definitions are identical, except for the definition of "agricultural production."

For purposes of Conn. Gen. Stat. § 12-217vv, the term "agricultural production" is defined as follows:

> "Agricultural production" has the same meaning as provided in subdivision (63) of section 12-412;

Conn. Gen. Stat. § 12-412(63), which is commonly referred to as the "farmer tax exemption,"[2] defines "agricultural production" as follows:

> engaging, as a trade or business, in (I) the raising and harvesting of any agricultural or horticultural commodity, (II) dairy farming, (III) forestry, (IV) the raising, feeding, caring for, shearing, training or management of livestock, including horses, bees, poultry, fur-bearing

[1] It is important to understand who qualifies as an "eligible farmer" for purposes of these credits. Both Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww define an "eligible farmer" to mean "a taxpayer in this state whose federal gross income from farming for the income or taxable year is at least two-thirds of excess federal gross income." Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww both define "excess federal gross income" to mean "the amount of federal gross income from all sources for the income or taxable year in excess of thirty thousand dollars." In order to determine whether these income thresholds are satisfied, Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww specifically provide that an "eligible farmer" may use "for any income or taxable year the average of the [eligible farmer's] federal gross income from farming for such income or taxable year and the two consecutive income or taxable years immediately preceding."

[2] Conn. Gen. Stat. § 12-412(63) provides an exemption from sales and use taxes that allows those persons who have been issued a farmer tax exemption permit by the Department to purchase certain items of tangible personal property exempt from said taxes.

> animals or wildlife or (V) the raising and harvesting of fish, oysters, clams, mussels or other molluscan shellfish.

The term "agricultural production" is defined as follows for purposes of Conn. Gen. Stat. § 12-217ww:

> "Agricultural production" has the same meaning as provided in subdivision (63) of section 12-412 and includes the production of: (A) Wine from a farm winery licensed pursuant to section 30-16, (B) Christmas trees, whether dug for transplanting or cut from the stump, and (C) apple juice and cider by a farmer who holds both an apple juice and cider manufacturing permit and a farmer tax exemption permit issued pursuant to section 12-412

Upon comparison of the above-quoted language, Conn. Gen. Stat. § 12-217ww contains a more expansive definition of the term "agricultural production" than the definition of said term that is incorporated into Conn. Gen. Stat. § 12-217vv. In other words, there are activities in which an "eligible farmer" can engage in that will constitute "agricultural production" for purposes of Conn. Gen. Stat. § 12-217ww that would not constitute "agricultural production" for purposes of Conn. Gen. Stat. § 12-217vv. As explained below, the definition of "agricultural production" is relevant when assessing whether an item qualifies as "farm investment property." That said, given the overall similarity between the language of Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww, the guidance contained herein will apply with equal force to both provisions unless specifically noted otherwise.

The scope of "farm investment property": As explained herein, under Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww an "eligible farmer" that purchases "farm investment property" is eligible to earn a tax credit that is based on the amount said farmer spent or incurred to purchase or acquire said property. Thus, and stated simply, the ability to earn these credits is predicated on purchasing or acquiring "farm investment property." As explained below, there are two categories of "farm investment property."

Both Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww define "farm investment property" to mean:

> machinery and equipment that are acquired by purchase by an eligible farmer on or after January 1, 2026, and buildings and structural components of buildings that are acquired, constructed, reconstructed or erected by an eligible farmer and placed in service on or after January 1, 2026, and (A) are situated in this state, (B) have a class life of more than four years, as described in Section 168(e) of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as amended from time to time, (C) are acquired by an eligible farmer from a person other than a related person, (D) are not acquired to be leased, and are not leased, to another person or persons during the twelve full months following their acquisition or placement in service, and (E) will be held and used in this state by the eligible farmer in the ordinary course of agricultural production for not less than five full years following the date of acquisition of such machinery and equipment or the date of placement in service of such buildings;

Based on the plain language of this definition, there are two categories of "farm investment property." More specifically, "farm investment property" includes "machinery and equipment that are acquired by purchase by an eligible farmer" and "buildings and structural components of buildings that are acquired, constructed, reconstructed or erected by an eligible farmer." The Department addresses each of these categories below.

As an initial matter, neither Conn. Gen. Stat. § 12-217vv nor Conn. Gen. Stat. § 12-217ww contain a definition of the terms "machinery" or "equipment" or of the terms "buildings" or "structural components of buildings." Thus, in order to determine what types of property qualify under each term, said terms must be defined. Applying well-established principles of statutory construction, the Department defines each term below.

To that end, the Connecticut Supreme Court has long acknowledged that "the legislature is presumed to have acted with knowledge of existing statutes and with an intent to create one consistent body of laws [citations omitted]." Zachs v. Groppo, 207 Conn. 683, 696, 542 A.2d 1145 (1988). The Connecticut Supreme Court further stated that "'[w]here a statute . . . does not define a term, it is appropriate to focus upon its common understanding as expressed in the law and upon its dictionary meaning.'" (citation omitted) AirKaman, Inc., et al. v. Groppo, 221 Conn. 751, 756-757, 607 A.2d 410. Therefore, in enacting Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww, the Connecticut General Assembly is presumed to have done so with knowledge of other statutes. As explained below, although the terms "machinery" and "equipment" are not defined in Conn. Gen. Stat. § 12-217vv, Conn. Gen. Stat. § 12-217ww, or the chapter[3] in which these provisions are codified, these terms are defined elsewhere in state statute.

The terms "machinery" and "equipment" are defined in Chapter 219[4] of Title 12 of the Connecticut General Statutes. Under the clear direction of the Connecticut Supreme Court, the Connecticut General Assembly is presumed to have enacted both Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww to be consistent with the definitions of "machinery" and "equipment" set forth in Chapter 219. To that end, Conn. Gen. Stat. § 12-412i defines the terms "machinery" and "equipment" as follows:

> "machinery" means the basic machine itself, including all of its component parts and contrivances such as belts, pulleys, shafts, moving parts, operating structures and all equipment or devices used or required to control, regulate or operate the machinery, including, without limitation, computers and data processing equipment, together with all replacement and repair parts therefor, whether purchased separately or in conjunction with a complete machine, and regardless of whether the machine or component parts thereof are assembled by the taxpayer or another party; (5) "equipment" means any device separate from machinery but essential to a manufacturing, processing or fabricating process;

Following the well-established principles of statutory construction, and subject to the modification described below, it is the above-listed definitions[5] that will apply for purposes of determining whether an item of "machinery" or "equipment" that is acquired by purchase by an "eligible farmer" on and after January 1, 2026, fits within the scope of "farm investment property."

The Department notes that the definition of "equipment" set forth in Conn. Gen. Stat. § 12-412i provides that such equipment must be essential to a "a manufacturing, processing or fabricating process." Given the express language of Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww, the Department recognizes that said provisions do not pertain to "manufacturing, processing or fabricating." Rather, they pertain to agricultural production. Thus, for purposes of administering these provisions, the Department will construe "equipment" to mean any device separate from machinery that is essential to agricultural production. The Department now turns to the "buildings and structural components of buildings" component of this definition.

As noted above, the Connecticut Supreme Court stated that "'[w]here a statute . . . does not define a term, it is appropriate to focus upon its common understanding as expressed in the law and upon its dictionary meaning.'" (citation omitted) AirKaman, Inc., et al. v. Groppo, 221 Conn. 751, 756-757, 607 A.2d 410. Unlike "machinery" and "equipment," the terms "buildings" and "structural components of

[3] Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww are codified in Chapter 208 of Title 12 of the Connecticut General Statutes, which chapter pertains to the State's Corporation Business Tax.

[4] Chapter 219 "is known and shall be cited as the "Sales and Use Taxes Act". Conn. Gen. Stat. § 12-406.

[5] In accordance with the principles of statutory construction, the Department has applied these same definitions in its construction of other tax credits codified in Chapter 208. See Conn. Gen. Stat. § 12-217o.

buildings" are not defined anywhere in state statute.[6] Thus, in such circumstances, the principles of statutory construction direct that the Department look to the dictionary meaning of these words.[7]

To that end, the Merriam-Webster dictionary[8] defines "building" as "a usually roofed and walled structure built for permanent use (as for a dwelling)." The well-established principles of statutory construction direct that it is this commonly understood dictionary meaning that must be applied is construing Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww. That said, such definition must be viewed in the context of these credits. In other words, any qualifying "building" must have a nexus to farming or agricultural productions. Based on the forgoing, the types of "roofed and wall structure[s] built for permanent use" that will qualify for credit under Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww will likely include farmhouses, livestock barns and shelters, silos, and buildings for machinery and supplies and crop storage.[9] As explained below, this commonly understood meaning of "building" will also be employed in determining whether an item of property constitutes a "structural component[]" of a building.

When it comes to "structural components of buildings," there is no dictionary definition of such term. That said, the Merriam-Webster dictionary defines "structural"[10] to mean "of, relating to, or affecting structure." Thus, in order for a "structural component[]" of a building to fit within the definition of "farm investment property" for purposes of Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww, such "structural component[]" must "relate[] to, or affect[]" the structure of a "roofed and walled structure built for permanent use." Although not intended to be exhaustive, based on the foregoing, it is commonly understood that "structural components" of a "building" will likely include such things as framing, foundations, beams, columns, trusses, and load-bearing walls.[11] Thus, when considering whether a "structural component[]"acquired, constructed, reconstructed or erected by an "eligible farmer" and placed in service on or after January 1, 2026, fits within the scope of "farm investment property," the above-listed definitions will apply. That said, simply because an item might fit within the definitions described herein does not mean that said item will qualify as "farm investment property." Rather, and as explained below, there are additional statutory requirements that must also be satisfied.

To that end, and as set forth in the definition of "farm investment property," both Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww impose additional requirements that must be satisfied in order for "machinery," "equipment," a "building[]," or "structural component[]" of a building to qualify as "farm investment property." Under the law, any item of property that fits within the above-described definitions must also: (A) be situated in this state, (B) have a class life of more than four years, as described in IRC § 168(e), (C) be acquired by an "eligible farmer" from a person other than a "related person," (D) not have been acquired to be leased, and is not leased, to another person or persons during the twelve full months following its acquisition or placement in service, and (E) be held and used in this

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[6] The Department notes that the term "building" is defined in Conn. Gen. Stat. § 53a-100, which is a penal code provision, as follows: "(1) 'Building' in addition to its ordinary meaning, includes any watercraft, aircraft, trailer, sleeping car, railroad car or other structure or vehicle or any building with a valid certificate of occupancy." It is noteworthy that said definition specifically references and incorporates therein the "ordinary meaning" of the word building.

[7] Consistent with the above, Conn. Gen. Stat. § 1-1(a) specifically provides that "[i]n the construction of the statutes, words and phrases shall be construed according to the commonly approved usage of the language; and technical words and phrases, and such as have acquired a peculiar and appropriate meaning in the law, shall be construed and understood accordingly."

[8] See **BUILDING Definition & Meaning - Merriam-Webster**

[9] While this list is intended to be helpful, it is not intended to be exhaustive. Rather, a determination of whether an item of property constitutes a "building" for purposes of these credits will ultimately turn on the specific facts and circumstances.

[10] See **STRUCTURAL Definition & Meaning - Merriam-Webster**

[11] As noted in footnote 9 above, a determination of whether an item of property constitutes a "structural component[]" of a "building" for purposes of these credits will ultimately turn on the specific facts and circumstances.

state by the "eligible farmer" in the ordinary course of "agricultural production"[12] for not less than five full years following the date of acquisition of such machinery and equipment or the date of placement in service of such buildings. The last of the above listed requirements cannot be determined at the time the item is acquired or placed in service. As such, an "eligible farmer" will be able to claim a credit under Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww in the income or taxable year in which the farmer acquired or placed the item in service. However, if the "eligible farmer" were to utilize the property for other than "agricultural production" purposes within five years from the date the item was acquired or placed in service, the farmer will be required to recapture the credit said farmer claimed.[13]

Amount of the tax credit: As explained herein, under Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww an "eligible farmer" that purchases "farm investment property" will be eligible to earn a tax credit that is based on the amount said farmer spent or incurred to purchase or acquire said property. More specifically, both Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww provide for a credit that is equal to twenty per cent (20%) of the amount paid or incurred by the "eligible farmer" to acquire "farm investment property" during the income or a taxable year in which such property was so acquired. There is no cap or limit in the amount of credit that an "eligible farmer" can earn in a given income or taxable year. If the amount of the credit exceeds the tax liability of an "eligible farmer" in a year, the excess amount is treated as an overpayment and is to be refunded without interest to the "eligible farmer." It is also important to note that an "eligible farmer" may not claim any other state tax credit for any item of property for which it claims a credit under Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww.

Taxes against which the tax credit can be applied: An "eligible farmer" that earns a credit under Conn. Gen. Stat. § 12-217vv or Conn. Gen. Stat. § 12-217ww is allowed to claim said credit against the tax imposed under Chapter 208 (corporation business tax) or Chapter 229 (income tax), other than the liability imposed by Conn. Gen. Stat. § 12-707. Thus, if an "eligible farmer" is a corporation, it can apply the credit against its corporation business tax liability in the income year said farmer purchased or acquired the subject property. If an "eligible farmer" is an S corporation or treated as a partnership for federal income tax purposes, its shareholders and partners may claim the credit in the taxable year the farmer purchased or acquired said property. Similarly, if an "eligible farmer" is a single member limited liability company that is disregarded for federal tax purposes, the credit may be claimed by such limited liability company's owner in the income or taxable year in which the farmer purchased or acquired such property, provided such owner is subject to the corporation business or income tax.

Effective Dates of the Tax Credits: Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww are each effective January 1, 2026, and applicable to income and taxable years commencing on or after January 1, 2026.

Effect on Other Documents: None.

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[12] As noted above, Conn. Gen. Stat. § 12-217vv and Conn. Gen. Stat. § 12-217ww contain different definitions of "agricultural production." Taxpayers and practitioners should be mindful of the distinctions in these definitions when determining which credit to claim, as certain activities that constitute "agricultural production" for purposes of Conn. Gen. Stat. § 12-217ww will not constitute "agricultural production" for purposes of Conn. Gen. Stat. § 12-217vv.

[13] Under the law, if the item is used for other than "agricultural production" purposes for less than three full years, the "eligible farmer" is required to recapture one hundred per cent (100%) of the credit amount claimed in the taxable or income year in which the property was acquired or placed in service. If the item is used for "agricultural production" purposes for more than three full years but less than five full years, the "eligible farmer" is required to recapture fifty per cent (50%) of the credit amount claimed in the taxable or income year in which the property was acquired or placed in service.

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