

OKLAHOMA TAX COMMISSION

TAX POLICY DIVISION
DAWN CASH, DIRECTOR

PHONE (405) 521-3133
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October 27, 2008

Re: LR-08-133

Dear

This letter ruling is in response to your letter ruling request dated October 3, 2008 wherein you posed a series of ruling requests relating to the Agricultural Credit Act (68 O.S. §2357.25) Following a verbatim restatement of the facts as outlined in your letter, are the specific rulings requested and our responses thereto.

Facts:

1. currently owned by two Oklahoma residents, intends to lease or purchase agricultural land in Oklahoma. It intends to do one or more of the following; a) raise, cut and bale hay for feeding of livestock, b) acquire mares for the production and sale of offspring, or c) acquire stallions for sale of their breeding services. will be taxed as a partnership. is intended to qualify as an "Oklahoma agricultural producer" as defined in the Agricultural Credit Act based on one or more of its intended activities in Oklahoma.

2. will raise additional capital from its current owners, banks or accredited investors as secured or unsecured loans or as equity capital. Such funds will be used for the purpose of making an investment in an LLC tentatively named will have multiple classes of equity membership interests with differing allocations of profits, losses and tax credits earned under the Agricultural Credit Act as provided in its Operating Agreement. Funds invested by in may be equity investments or loans with or without security.

3. will lease or purchase land in Oklahoma upon which it will operate a race horse breeding facility. The facility will board horses owned by others, extract

semen from the stallions and artificially inseminate the mares for which it will charge a service fee. It may also purchase, store and resell semen. It may be a purchaser of hay or stallion services from _____ will hav _____ as its only member and will be classified for income tax purposes as a disregarded entity _____ is intended to qualify as an "Oklahoma producer-owned agricultural processing venture" based on its artificial insemination activities and its ownership by _____

Rulings Requested

Based upon the facts and representations set forth above:

1. _____ will qualify as an "Oklahoma agricultural producer" as defined in 68 O.S. § 2357.25(1)(5).

Yes.

2. Horse semen is an "agricultural commodity" as defined in 68 OS § 2357.25(7).

Yes.

3. _____ will qualify as a "Oklahoma producer-owned agricultural processing venture" as defined in 68 OS § 2357.25(1)(3).

Yes.

4. _____ activities will not constitute a "recreational activities group" subject to the limitation on credits imposed by 68 OS § 2357.25A.

Yes.

5. _____ will he entitled to the 30% tax credit described in 68 OS § 2357.25(B) resulting from its investments in _____ as equity or loans, The rate of credit is subject to modification as provided by 68 OS § 2357.25(C), but no reduction has yet occurred.

Yes.

6. Applying general flow-through concepts of partnership taxation, the credits earned by the _____ may be allocated by it among its Members holding equity interests in accordance with its Operating Agreement and each such Member will be entitled to claim their allocated share of the credits. A Member may claim such credits in its Oklahoma income tax return for its taxable year with which or within which ends the taxable year of _____. Unused credits may be carried over by each Member for up to six years as provided by statute.

Members of a pass-through entity that are entitled to a credit may receive an allocation of the credits from the pass-through entity. Once allocated to the members, the credits

may be claimed on its Oklahoma income tax return for the same year in which the investment was made. Unused credits may be carried over by each Member for up to six years as provided by statute.

This response applies only to the circumstances set out in your request dated October 3, 2008. Pursuant to Commission Rule 710:1-3-73(e), this Letter Ruling may be generally relied upon only by the entity to whom it is issued and its investors, assuming that all pertinent facts have been accurately and completely stated, and that there has been no change in applicable law.

Please be advised that the issuance of this ruling does not preclude the Oklahoma Tax Commission from conducting an audit or examination under 68 Okla. Stat. §206 of any report or return claiming a credit for the transactions outlined in this letter ruling. The Commission reserves the right to issue any assessment, correction, or adjustment authorized under 68 Okla. Stat. §221.

Sincerely,

Oklahoma Tax Commission

A handwritten signature in black ink, appearing to read "Lisa R. Haws". The signature is written in a cursive, flowing style.

Lisa R. Haws
Tax Policy & Research Division