

Agriculture
Hester, Chairperson
Dreeszen
Van Gilst

BY RODGERS

SENATE FILE 227

Ways and Means
Hester, Chairperson
Taylor
Rodgers

FEB 11 1981

Passed Senate, Date _____ Passed House, Date _____

Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____

Approved _____

A BILL FOR

1 An Act relating to beginning farmers by authorizing the
2 family farm development authority to establish a program
3 for insuring or guaranteeing contracts of sale of
4 farm land made to beginning farmers, increasing the
5 bonding power of the authority, providing for an
6 income tax deduction for capital gains and interest
7 received on contracts of sale made to beginning farmers
8 and providing for a January 1 effective date for certain
9 sections.

10 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section 175.12, Code 1981, is amended by adding
2 the following new subsection:

3 NEW SUBSECTION.

4 a. The authority may provide for a program solely for
5 the insuring or guaranteeing of contracts of sale of
6 agricultural land made to beginning farmers who meet the
7 criteria of subsection 3, to the extent applicable. The
8 development or operation of the program may be done by the
9 authority itself, by means of the creation of a special
10 corporate entity, or by any other means the authority deems
11 advisable.

12 b. The only funds available for a program to insure or
13 guarantee contracts of sale of agricultural land made to
14 beginning farmers who meet the criteria of subsection 3, to
15 the extent applicable, are those moneys or assets received
16 by the authority under sections 175.28 through 175.32, those
17 moneys appropriated by the legislature specifically for this
18 program, those moneys received from the federal government
19 or another person which are specifically designated to be
20 used in this program, and those moneys received from the
21 charging of a fee, if one is charged, to the seller or buyer
22 for the insuring or guaranteeing of a contract of sale pursuant
23 to this program.

24 c. If a special corporate entity is established, its sole
25 purpose shall be to insure or guarantee contracts of sale
26 of agricultural land made to a beginning farmer meeting the
27 criteria of subsection 3, to the extent applicable, and its
28 powers shall be those which are necessary to carry out this
29 purpose and may include but are not limited to the power to
30 charge a fee to the seller or buyer for the insuring or
31 guaranteeing of a contract of sale. Funds which are available
32 for the program as specified in paragraph b shall be
33 transferred to the corporate entity in amounts as deemed
34 advisable by the authority.

35 Sec. 2. Section 175.17, subsection 1, Code 1981, is amended

1 to read as follows:

2 1. The authority may issue its negotiable bonds and notes
3 in principal amounts which, in the opinion of the authority,
4 are necessary to provide sufficient funds for achievement
5 of its corporate purposes, the payment of interest on its
6 bonds and notes, the establishment of reserves to secure its
7 bonds and notes and all other expenditures of the authority
8 incident to and necessary or convenient to carry out its
9 purposes and powers. However, the authority may shall not
10 have a total principal amount of bonds and notes outstanding
11 at any time in excess of ~~one~~ three hundred ~~fifty~~ million
12 dollars. The bonds and notes shall be deemed to be investment
13 securities and negotiable instruments within the meaning of
14 and for all purposes of the uniform commercial code.

15 Sec. 3. Section 422.7, Code 1981, is amended by adding
16 the following new subsections:

17 NEW SUBSECTION. Where the adjusted gross income includes
18 a capital gain from a contract of sale of agricultural land
19 made to a beginning farmer meeting the criteria of section
20 175.12, subsection 3, at the time the contract of sale is
21 made, subtract fifty percent of that capital gain to the
22 extent it is included in adjusted gross income. However,
23 the aggregate amount that may be subtracted under this
24 subsection in all tax years for each contract of sale made
25 shall not exceed fifty thousand dollars. In order to receive
26 the benefits of this subsection, the taxpayer shall file with
27 the income tax return a notarized statement from the beginning
28 farmer that the beginning farmer has met the criteria of
29 section 175.12, subsection 3, at the time the contract of
30 sale was made. The taxpayer need only file this statement
31 with the return for the first year the taxpayer claims the
32 benefit of this subsection for the contract of sale.

33 NEW SUBSECTION. Subtract the amount of interest received,
34 to the extent included in adjusted gross income, on a contract
35 of sale of agricultural land made to a beginning farmer meeting

1 the criteria of section 175.12, subsection 3, at the time
2 the contract of sale is made. The contract of sale shall
3 extend for a period of at least fifteen years and have an
4 annual interest rate of not more than six percent. In order
5 to receive the benefits of this subsection, the taxpayer shall
6 file with the income tax return a notarized statement from
7 the beginning farmer that the beginning farmer has met the
8 criteria of section 175.12, subsection 3, at the time the
9 contract of sale was made. The taxpayer need only file this
10 statement with the return for the first year the taxpayer
11 claims the benefit of this subsection for the contract of
12 sale.

13 Sec. 4. Section 422.35, Code 1981, is amended by adding
14 the following new subsections:

15 NEW SUBSECTION. Where the taxable income includes a capital
16 gain from a contract of sale of agricultural land made to
17 a beginning farmer meeting the criteria of section 175.12,
18 subsection 3, at the time the contract of sale is made,
19 subtract fifty percent of that capital gain to the extent
20 it is included in taxable income. However, the aggregate
21 amount that may be subtracted under this subsection in all
22 tax years for each contract of sale made shall not exceed
23 fifty thousand dollars. In order to receive the benefits
24 of this subsection, the taxpayer shall file with the return
25 a notarized statement from the beginning farmer that the
26 beginning farmer has met the criteria of section 175.12,
27 subsection 3, at the time the contract of sale was made.
28 The taxpayer need only file this statement with the return
29 for the first year the taxpayer claims the benefit of this
30 subsection for the contract of sale.

31 NEW SUBSECTION. Subtract the amount of interest received,
32 to the extent included in taxable income, on a contract of
33 sale of agricultural land made to a beginning farmer meeting
34 the criteria of section 175.12, subsection 3, at the time
35 the contract of sale is made. The contract of sale shall

1 extend for a period of at least fifteen years and have an
2 annual interest rate of not more than six percent. In order
3 to receive the benefits of this subsection, the taxpayer shall
4 file with the return a notarized statement from the beginning
5 farmer that the beginning farmer has met the criteria of
6 section 175.12, subsection 3, at the time the contract of
7 sale was made. The taxpayer need only file this statement
8 with the return for the first year the taxpayer claims the
9 benefit of this subsection for the contract of sale.

10 Sec. 5. Sections 3 and 4 of this Act are effective January
11 1 following enactment for tax years beginning on or after
12 the effective date.

13 EXPLANATION

14 The bill authorizes the family farm development authority
15 to establish a program whereby the contracts of sale of farm
16 land made to a beginning farmer are insured or guaranteed.
17 The authority would establish the criteria the beginning
18 farmer must meet before a contract of sale can be insured
19 or guaranteed. The bill identifies which funds can be used
20 for this type of program.

21 The bill also increases the bonding authority of the family
22 farm development authority from \$150,000,000 to \$300,000,000.

23 The bill also provides that the individual, corporation,
24 or financial institution making the contract of sale with
25 a beginning farmer can deduct in computing their state income
26 tax up to \$50,000 in capital gains made as a result of the
27 contract of sale and deduct the interest received from the
28 contract of sale if the contract of sale extends for at least
29 fifteen years and the interest rate is not more than a six
30 percent annual rate.

31 The bill takes effect July 1 except that sections 3 and
32 4 take effect January 1 following enactment.

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SENATE FILE 227
FISCAL NOTE

REQUESTED BY SENATOR RODGERS

In compliance with a written request there is hereby submitted a Fiscal Note for Senate File 227 pursuant to Joint Rule 16.

S.F. 227 authorizes the Family Farm Development Authority to establish a program whereby contract sales of farmland to beginning farmers are insured or guaranteed. Monies to fund the program are those currently received under Section 175.28 through 175.32, those appropriated specifically for the program, those received from the federal government, or those received by charging a fee for insuring or guaranteeing the contract of sale. The bonding authority is increased from \$150M to \$300M of outstanding bonds and notes.

S.F. 227 would also provide an income tax benefit for individual and corporate income and franchise tax filers. The legislation would allow a 50 percent deduction of capital gains included in federal adjusted gross income if the capital gains were derived from the sale of farmland to a beginning farmer, as that term is defined in Chapter 175 of the Iowa Code. Also, any interest income from such a transaction would be tax free provided that the interest rate charged would be 6 percent or less, and also if the contract terms were for 15 or more years. For any such transaction to be eligible for the tax break, it must also comply with the provisions set forth in Section 175.12 of the Family Farm Development Act.

In order to determine the revenue loss associated with this legislation, it would be necessary to know the number of qualifying sales which would take place each year and the details about each sale, such as capital gains realized, interest rates charged and the number of years for which the contract would run. Such information is not possible to obtain. Because of this, no estimate of the anticipated revenue loss can be provided.

SOURCE: DEPARTMENT OF REVENUE
IOWA HOUSING FINANCE AUTHORITY
LEGISLATIVE FISCAL BUREAU

RECEIVED BY THE SECRETARY OF THE SENATE, APRIL 15, 1981
FILED: BY GERRY D. RANKIN, DIRECTOR
APRIL 21, 1981 LEGISLATIVE FISCAL BUREAU

S-3198

1 Amend Senate File 227 as follows:

2 1. Page 1, by inserting before line 1 the
3 following:

4 "Section 1. Section 175.2, subsection 9, Code
5 1981, is amended to read as follows:

6 9. "Low or moderate net worth" means an aggregate
7 net worth of an individual and the individual's spouse
8 and children, if any, of less than one hundred thousand
9 dollars in the case of the acquisition of depreciable
10 agricultural property and agricultural improvements
11 and of less than two hundred thousand dollars in the
12 case of the acquisition of agricultural land."

13 2. Page 4, by inserting after line 9 the following:

14 "Sec. ____ . Section 524.905, subsection 6, Code
15 1981, is amended by adding the following new lettered
16 paragraph:

17 NEW LETTERED PARAGRAPH. Loans made to beginning
18 farmers as part of programs authorized in chapter
19 175 and approved by the Iowa family farm development
20 authority."

21 3. Number, renumber and correct internal references
22 as are necessary.

23 4. Title page, line 7, by inserting after the
24 word "farmers" the words ", increasing the net worth
25 limitation with respect to the acquisition of
26 agricultural land, exempting loans made under programs
27 of the family farm development authority from the
28 restrictions and requirements specified in section
29 524.905,".

S-3198 FILED
MARCH 17, 1981

BY COMMITTEE ON AGRICULTURE
RAY TAYLOR, CHAIRPERSON