FINAL REPORT

LIVESTOCK STUDY COMMITTEE

January, 1987

The Livestock Study Committee was established by the Legislative Council to study the ramifications of the federal tax changes on the livestock industry and work in coordination with the L.E.A.G. study about the livestock industry.

Members serving on the Study Committee were:

Senator Berl Priebe, Co-chairperson
Representative David Osterberg, Co-Chairperson
Senator Leonard Boswell
Senator Emil Husak
Senator Jack Hester
Senator John Soorholtz
Representative Daniel Fogarty
Representative Louis Muhlbauer
Representative Kenneth De Groot
Representative Clifford Branstad
Mr. Jerry Brown
Mr. Vic Tomka
Mr. Dan Otto
Ms. Leslie Miller
Mr. Don Prilipp

The Study Committee was granted two meetings which were held December 23, 1986 and January 9, 1987.

At the first meeting, the Study Committee heard from Professor Neil E. Harl of Iowa State University on the impact of the federal tax reform act on livestock producers; Mr. Malcolm McGregor, President of the Iowa Cattlemens Association on the status of the cattle industry in the state and the need for some assistance by the state to help in reviving and expanding the industry; Mr. Clay Mowers of the Home Federal Savings and Loan in Algona on the desire of the savings and loans industry to make funds available to be used for financial assistance for the cattle industry; Mr. Byron Hayes a livestock producer on his experiences and problems; Mr. Jerry Brown a member of the Study Committee on a proposal he put together that involved the state, financial institutions, and the cattle producers; and Representative Stromer on his ideas of how the state cattle feeding industry can be revived. Mr. Robert Furleigh, State Executive Director of the USDA and Mr. William Burnau of the state banking division were present to respond to questions by members of the Study Committee.

At the second meeting, the Study Committee heard from Mr. Orville Bloethe, Chairman of the Iowa Bar Association's Tax Committee, on the tax impact on cattle production operations in the state of the federal tax changes which he said would provide in the long run a benefit to the cattle producers because of the elimination of tax shelters and from a fellow member of the Study Committee, Ms. Leslie Miller on the status of rural banks, the double jeopardy issue, and the rates of interest being charged. The Study Committee devoted the afternoon session to a discussion of a proposed bill. After amendments and continuing debate the Study Committee recommended the attached bill entitled:

"An Act relating to the state livestock industry by providing a property tax credit for certain facilities used in producing meat; providing an exemption from the sales, services, and use tax of the sale, furnishing, or service of utilities or fuel to be used in agricultural production for market and of equipment or its repair if used in the production of livestock; and establishing a cattle feeding program and loan guarantee program for cattle operations."

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SENATE/HOUSE FILE ______

BY (PROPOSED LIVESTOCK STUDY COMMITTEE BILL)

Passed Senate, Date ____________ Passed House, Date ______________

Vote: Ayes ______ Nays _______ Vote: Ayes ______ Nays ________

Approved ______________________________

A BILL FOR

An Act relating to the state livestock industry by providing a property tax credit for certain facilities used in producing meat; providing an exemption from the sales, services, and use tax of the sale, furnishing, or service of utilities or fuel to be used in agricultural production for market and of equipment or its repair if used in the production of livestock; and establishing a cattle feeding program and loan guarantee program for cattle operations.

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

TLSB 1544IS 72

mg/sc/14

S.F. ________ H.F. ________

DIVISION I

Section 101. Section 331.429, subsection 1, paragraph a, Code 1987, is amended to read as follows:

a. Transfers from the general fund not to exceed in any year the dollar equivalent of a tax of sixteen and seven-eighths cents per thousand dollars of assessed value on all taxable property in the county and an amount equivalent to the moneys derived by the general fund from ~~livestock-tax-credits under-section-427.17,~~ military service tax credits under chapter 426A~~,~~ and mobile home taxes under section 135D.22 multiplied by the ratio of sixteen and seven-eighths cents to the general fund tax rate.

Sec. 102. Section 427.17, subsections 2 and 3, Code 1987, are amended by striking the subsections and inserting in lieu thereof the following:

2. A property tax credit for every head of cattle, not to exceed three hundred head, bought, raised, or sold in the state by a producer is allowed on the tax levied on the farm structures utilized in raising the cattle, which structures do not include structures utilized for grain or machine storage. The amount of the credit is three dollars per head if bought in the state, six dollars per head if bought and sold for slaughter at facilities in this state, or nine dollars per head if bought, raised immediately before slaughter, and sold for slaughter at facilities in this state. The tax credit shall be provided to the owner of the farm structures. The tax credit shall not exceed two thousand seven hundred dollars per owner.

3. To claim the credit allowed in subsection 2, the owner of the farm structures shall file an application for the credit by February 1 of the year following the calendar year upon which the credit is based with the county auditor of the county in which the farm structures are located. The credit shall be allowed against the taxes due and payable in the first fiscal year following the calendar year upon which the

credit is based. The application shall indicate the number of head of cattle bought, raised, or sold in the state during the previous calendar year, and shall include copies of receipts or invoices for the purchase or sale for slaughter of the cattle during the previous calendar year. On or before April 1 of each year, after review and approval by the county board of supervisors, the county auditor of each county shall certify to the director of revenue and finance the amount of credit allowed in the county under this section. If the county auditor or the board of supervisors denies a claim, notice of the denial shall be given to the claimant. The claimant may appeal the denial first to the board of supervisors, then to the district court of that county. As used in this section:

a. "Producer" means a person engaged in the business of producing cattle.

b. "Owner" means the person who under the property tax laws of this state is liable for the payment of the property taxes on the farm structures utilized in raising cattle. "Owner" does not include a person who becomes an owner solely for the purpose of receiving the benefits of this section.

Sec. 103. Section 427.17, subsection 4, Code 1987, is amended to read as follows:

4. The amounts due each taxing district to reimburse them for the property tax credits allowed pursuant to this section shall be paid on warrants payable to the respective county treasurers by the director of revenue and finance on July 15 of each year. The county treasurer shall apportion the proceeds to the various taxing districts in the county.

Sec. 104. Section 442.2, subsection 2, Code 1987, is amended to read as follows:

2. ~~The-amount-paid-to-each-school-district-for-the-tax credit-for-livestock-under-section-427.17-shall-be-regarded-as property-tax.--The-portion-of-the-payment-which-is-foundation property-tax-shall-be-determined-by-applying-the-foundation~~

~~property-tax-rate-to-the-taxable-value-of-livestock-assessed for-taxation-in-the-district-as-of-January-1,-1973,-determined pursuant-to-section-427.17,-and-adjusted-to-actual-value-as provided-in-Acts-of-the-Sixty-fifth-General-Assembly,-chapter 1231,-section-174.~~ A school district ~~is-hereby-authorized-to~~ may levy a tax on all of the taxable property within the district in an amount equal to the difference between the amount due to a school district from the personal property tax replacement fund for the preceding year and the amount actually received during the preceding fiscal year from the personal property tax replacement fund.

DIVISION II

Sec. 201. Section 422.42, subsection 3, Code 1987, is amended to read as follows:

3. "Retail sale" or "sale at retail" means the sale to a consumer or to any person for any purpose, other than for processing, for resale of tangible personal property or taxable services, or for resale of tangible personal property in connection with taxable services~~,~~; and includes the sale of gas, electricity, water, and communication service to retail consumers or users~~,~~; but does not include agricultural breeding livestock and domesticated fowl~~,-or~~; and does not include commercial fertilizer, agricultural limestone, ~~or~~ herbicide, pesticide, insecticide, food, ~~and~~ medication, ~~and~~ or agricultural drain tile ~~and~~, including installation ~~thereof~~ of agricultural drain tile, any of which are to be used in disease control, weed control, insect control, or health promotion of plants or livestock produced as part of agricultural production for market~~,~~; and does not include electricity, steam, or any taxable service when purchased and used in the processing of tangible personal property intended to be sold ultimately at retail. When used by a manufacturer of food products, electricity, steam, and other taxable services are sold for processing when used to produce marketable food products for human consumption, including but

not limited to, treatment of material to change its form, context, or condition, in order to produce the food product, maintenance of quality or integrity of the food product, changing or maintenance of temperature levels necessary to avoid spoilage or to hold the food product in marketable condition, maintenance of environmental conditions necessary for the safe or efficient use of machinery and material used to produce the food product, sanitation and quality control activities, formation of packaging, placement into shipping containers, and movement of the material or food product until shipment from the building of manufacture. Tangible personal property is sold for processing within the meaning of this subsection only when it is intended that the property will, by means of fabrication, compounding, manufacturing, or germination become an integral part of other tangible personal property intended to be sold ultimately at retail~~,~~; or will be consumed as fuel in creating heat, power, or steam for processing including grain drying, or for providing heat or cooling for livestock buildings, or for generating electric current, or ~~be consumed~~ in ~~self-propelled~~ implements of husbandry engaged in agricultural production~~,~~; or the property is a chemical, solvent, sorbent, or reagent, which is directly used and is consumed, dissipated, or depleted, in processing personal property which is intended to be sold ultimately at retail, and which may not become a component or integral part of the finished product. The distribution to the public of free newspapers or shoppers guides is a retail sale for purposes of the processing exemption.

Sec. 202. Section 422.45, Code 1987, is amended by adding the following new subsection:

NEW SUBSECTION. The gross receipts from the sale, furnishing, or service of gas, electricity, water, or heat to be used in agricultural production for market.

DIVISION III

Sec. 301. Section 422.43, subsection 11, Code 1987, is amended to read as follows:

11. The following enumerated services are subject to the tax imposed on gross taxable services: Alteration and garment repair; armored car; automobile repair; battery, tire and allied; investment counseling, excluding investment services of trust departments; bank service charges; barber and beauty; boat repair; car wash and wax; carpentry; roof, shingle, and glass repair; dance schools and dance studios; dry cleaning, pressing, dyeing, and laundering; electrical and electronic repair and installation; rental of tangible personal property; excavating and grading; farm implement repair of all kinds, except the repair of implements used in the production of livestock; flying service; furniture, rug, upholstery repair and cleaning; fur storage and repair; golf and country clubs and all commercial recreation; house and building moving; household appliance, television, and radio repair; jewelry and watch repair; machine operator; machine repair of all kinds; motor repair; motorcycle, scooter, and bicycle repair; oilers and lubricators; office and business machine repair; painting, papering, and interior decorating; parking facilities; pipe fitting and plumbing; wood preparation; licensed executive search agencies; private employment agencies, excluding services for placing a person in employment where the principal place of employment of that person is to be located outside of the state; sewing and stitching; shoe repair and shoeshine; storage warehousing of raw agricultural products; telephone answering service; test laboratories, except tests on humans; termite, bug, roach, and pest eradicators; tin and sheet metal repair; turkish baths, massage, and reducing salons; weighing; welding; well drilling; wrapping, packing, and packaging of merchandise other than processed meat, fish, fowl and vegetables; wrecking service; wrecker and towing; cable television; campgrounds; carpet and upholstery cleaning; gun and camera repair; janitorial and building maintenance or cleaning; lawn care, landscaping and tree trimming and

removal; lobbying service; pet grooming; reflexology; security and detective services; tanning beds or salons; and water conditioning and softening. For purposes of this subsection, gross taxable services from rental includes rents, royalties, and copyright and license fees. For purposes of this subsection, "lobbying service" means the rendering, furnishing or performing, for a fee, salary or other compensation, activities which are intended or used for the purpose of encouraging the passage, defeat, or modification of legislation or for influencing the decision of the members of a legislative committee or subcommittee or the representing, for a fee, salary or other compensation, on a regular basis an organization which has as one of its purposes the encouragement of the passage, defeat or modification of legislation or the influencing of the decision of the members of a legislative committee or a subcommittee. "Lobbying service" does not include the activities of a federal, state, or local government official or employee acting within the course of the official's or employee's duties or a representative of the news media engaged only in the reporting and dissemination of news and editorials.

Sec. 302. Section 422.45, subsection 26, paragraph b, Code 1987, is amended to read as follows:

b. The farm machinery and equipment shall constitute self-propelled implements or implements customarily drawn or attached to self-propelled implements or the farm machinery or equipment is a grain dryer <u>or used in the production of livestock</u>.

DIVISION IV

Sec. 401. Section 175.4, Code 1987, is amended by adding the following new subsection:

<u>NEW SUBSECTION</u>. The cattle industry in Iowa was once a significant contributor to the total gross state product of the state but in the last two decades over two billion dollars in economic activity annually and over seventeen thousand jobs

have been lost in the state due to the decline in the cattle industry. With the low prices for row crops and the crisis in the rural economy, the potential in the cattle industry for profitable growth can be instrumental in saving or bringing back to profitability farming in the state which will stabilize the surrounding rural communities. At present, more than ever, availability of capital is an extremely limiting factor. The conservative nature of lending institutions definitely has a negative impact on a capital intensive industry such as the cattle industry. If the financial industry or the farm credit system could make a major effort to become more positive about cattle as a whole, the cattle industry in the state would see a very dramatic change. It is necessary in order to assist in making finances available and the growth potential of the cattle industry a reality, to establish a cattle loan guarantee program and a cattle feeding program to assist farmers to obtain financing for cattle operations and thereby assist in the rebirth of the cattle industry with its resulting prosperity for rural communities.

Sec. 402. Section 175.10, Code 1987, is amended to read as follows:

175.10 SURPLUS MONEYS.

Moneys declared by the authority to be surplus moneys which are not required to service bonds and notes, to pay administrative expenses of the authority or to accumulate necessary operating or loss reserves, shall be used by the authority to provide loans, grants, subsidies, and services to cattle producers under the cattle feeding program and to beginning farmers through any of the programs authorized in this chapter.

Sec. 403. NEW SECTION. 175.36 CATTLE LOAN GUARANTEE PROGRAM.

1. The authority shall establish a cattle loan guarantee program to facilitate the availability of capital to farmers for cattle operations by providing guarantees of the principle

amount of cattle loans made by lending institutions in this state.

2. The authority shall make available to farmers and lending institutions eligibility application forms for the cattle loan guarantee program. Applications to the authority for assistance under this section shall be executed jointly by the lending institution and the farmer upon approved forms.

3. The authority shall provide in the cattle loan guarantee program that a guarantee will be provided in conjunction with a farmer's cattle loan only if the following criteria are satisfied:

a. The farmer is a resident of the state.

b. The farmer is an individual, a partnership, or a family farm corporation, as defined in section 172C.1, subsection 8.

c. The cattle operation in which the farmer will use the cattle loan is located within the state.

d. The cattle loan will be used by the farmer for acquisition of cattle for market and for the reasonable and necessary expenses in the production of the cattle for market.

e. The farmer has made full disclosure of the farmer's finances to the lending institution and to the authority, to the extent required by the authority.

f. Additional requirements as are prescribed by the authority by rule.

4. The authority shall charge the lending institutions premiums which are commensurate with the risks covered and which are no greater than necessary to make its guarantees actuarially sound and fully self-supporting. The authority shall establish a revolving loan guarantee reserve fund from which the authority shall withdraw funds only to meet its guarantees. The authority shall credit to the loan guarantee fund all premiums collected and any appropriations made specifically to the fund. Other moneys of the authority may be credited to the fund as determined by the authority. Provision shall be made in the guaranteeing of a loan that

only funds in the loan guarantee fund shall be used for the payment of the loan guaranteed under this program.

5. Guarantees made under the cattle loan guarantee program are not an obligation of this state or any political subdivision of this state other than the authority within the meaning of any constitutional or statutory debt limitations, but are special obligations of the authority payable solely and only from the sources provided in this section, and the authority may not pledge the credit or taxing power of this state or any political subdivision of this state other than the authority, or make its guarantees payable out of any moneys except those of the authority.

Sec. 404. NEW SECTION. 175.36 CATTLE FEEDING PROGRAM.

1. The authority shall establish a cattle feeding program under which the authority and cattle producer will provide equity investments and a lending institution will provide funding for the purchase, feeding, and marketing of cattle. If a cattle producer and lending institution want to participate in the cattle feeding program, they shall jointly develop a marketing plan for the cattle and make application with the authority for participation in the program. If the authority approves of the marketing plan, and the producer is a farmer meeting the requirements of section 175.35, subsection 3, paragraphs "a" through "c", and determines that the producer needs the assistance provided under the program, the authority may enter into an agreement with the producer and lending institution to provide equity investment by the authority. However, before the authority may approve of any marketing plan, the plan must provide the type of protection that will be taken to reduce the risk involved. This protection may include, but is not limited to, the entering into of a forward contract with an area packer, the purchase of a put to sell live cattle futures, or the hedging of the cattle by use of futures contracts.

2. An agreement entered into under the cattle feeding

program shall include, but not be limited to, the following terms:

a. The authority's equity investment is fifty dollars per head of cattle. This investment will be deposited with the lending institution within thirty days of the date of the termination of the agreement in case of loss.

b. The producer's equity investment is twenty-five dollars per head of cattle. This investment may be cash or a pledge of the producer's equity in agricultural land and facilities.

c. At least forty head but not more than two hundred head of cattle are to be covered under the program.

d. Within thirty days of the date of the agreement, the lending institution shall arrange for or provide financing for the purchase, feeding, and marketing of the cattle.

e. If the transactions covered by the agreement result in a net loss, the total amount of the producer's equity under paragraph "b" will be first used to cover the net loss. If the net loss exceeds the producer's equity, then the authority's equity under paragraph "a" will be used. The authority's risk of loss is equal to and shall not exceed the total amount contributed under paragraph "a".

f. For each head of cattle covered under the program, the producer shall pay to the authority one dollar per month until the cattle is marketed, not to exceed twelve per head.

The agreement may contain the marketing plan as one of its terms.

After the termination of an agreement, the authority and the producer may enter into an additional agreement. However, if the previous agreement resulted in a net profit, the amount of the authority's equity investment under paragraph "a" shall be reduced to reflect the net profit, but not in excess of fifteen percent.

3. The authority shall establish a special account for this program. Only moneys credited to this account may be used for the authority's equity investments under the program.

Appropriations, gifts, and grants specifically made for this program and moneys received pursuant to subsection 2, paragraph "f" shall be credited to the special account. The authority may credit additional moneys to the special account which it has available and which has not been designated for another program or purpose.

EXPLANATION

Division I of this bill revises the property tax credit reimbursement for livestock by providing owners of farm structures that are used in the production of cattle with the credit rather than the taxing districts. The calculation of the credit is changed to three dollars per head of cattle if raised in the state, six dollars if bought and sold in the state, and nine dollars if bought, raised, and sold in the state, applied against the tax on the structures used in producing the cattle. The credit is limited to $2700 per owner. The total amount of credits that may be paid by the state is limited to $8 million in a fiscal year.

Division II exempts from the sales and use tax the sale, furnishing, or service of gas, electricity, water, or heat when used in agricultural production for market. It also provides that property consumed as fuel in any implement of husbandry engaged in agricultural production is used in processing and thus exempt. The present law requires the implement of husbandry to be self-propelled.

Division III provides a sales and use tax exemption for the purchase of and repairs to farm machinery and equipment used in the production of livestock.

Division IV establishes a cattle loan guarantee program and a cattle feeding program. Under the loan guarantee program, the authority would guarantee loans made by lending institutions to farmers for cattle operations in the state. The cattle feeding program involves the taking of an equity position by the authority in marketing plans for the purchase, feeding, and marketing of cattle. The farmer would also take an equity position and the farmer's investment would be used first to cover losses. The authority would receive one dollar per head per month, not to exceed twelve dollars per head, from the farmer under the program.