



---

[SF 444](#) – Beginning Farmer Tax Credit (LSB1882SV)  
Analyst: Jeff Robinson (515.281.4614) [jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov)  
Fiscal Note Version – New

---

### **Description**

[Senate File 444](#) creates a Beginning Farmer Tax Credit. The new tax credit replaces the existing Agricultural Assets Transfer Tax Credit. The new tax credit raises the annual aggregate tax credit cap from the current \$6.0 million to approximately \$12.0 million.

Like the previous version of the credit, the new tax credit is not transferable or refundable, but any unused tax credits may be carried forward for up to 10 tax years. The changes are effective for tax years beginning on or after January 1, 2019.

### **Background**

The current Agricultural Assets Transfer Tax Credit is allowed for an owner of agricultural assets that are the subject of a lease or rental agreement with a qualified beginning farmer. The term of the agreement may be for two to five years. The tax credit is equal to 5.0% of the lease or rental agreement income if the agreement is on a cash payment basis, or 15.0% if the agreement is on a commodity share basis. The current tax credit has a \$6.0 million annual aggregate award cap that continues without sunset under current law. At the end of calendar year (CY) 2018, agreements with a total tax credit value of \$7.9 million were in place and under current law will consume some of the annual \$6.0 million cap. In addition, a total of \$3.9 million in agreements has been approved for the tax credit in CY 2019.

### **Assumptions**

- The tax credit cap will be administered as a calendar year cap (January 1 through December 31).
- The \$7.9 million in agreements that exist as of the end of CY 2018 will not be included as part of the new \$12.0 million tax credit cap. A CY 2018 or earlier agreement will remain in force and will earn tax credits when each year of the agreement is completed.
- The \$3.9 million in CY 2019 agreements will be issued as part of the \$12.0 million CY 2019 credit cap. For all future agreements, the term is assumed to be three years.
- It is assumed that under the new tax credit, the estimated tax credit award for all years of each agreement will be applied to the \$12.0 million cap for that approval year. This is a change from the existing tax credit, where each year of an agreement was applied to the tax credit cap for the calendar year in which each of the years of the agreement fell.
- Under existing law, the full \$6.0 million annual cap is assumed to be awarded. Under the proposal, 95.0% of the \$12.0 million annual cap is assumed to be awarded (\$11.4 million).
- Due to issues such as cancelled agreements and insufficient tax liability, only 70.0% of awarded tax credits will be redeemed.
- As nonrefundable credits, the tax credits are assumed to be redeemed over the seven years following the year of the award.
- As nonrefundable credits, credit redemptions impact the calculation of the local option income surtax for schools. The surtax rate is assumed to be 2.9%.

### **Fiscal Impact**

Replacing the existing Agricultural Asset Transfer Tax Credit with the Beginning Farmer Tax Credit is projected to decrease net General Fund revenue by the following amounts:

- FY 2020 = \$0.4 million
- FY 2021 = \$1.4 million
- FY 2022 = \$2.5 million
- FY 2023 = \$3.0 million
- FY 2024 = \$3.3 million
- FY 2025 = \$3.4 million
- FY 2026 = \$3.6 million
- FY 2027 and after = \$3.8 million

In addition, the amount of revenue raised by the local option income surtax for schools will be reduced by a projected \$0.1 million per year, beginning FY 2022.

### **Sources**

Department of Revenue  
MABSCO Capital, Inc.  
LSA calculations

/s/ Holly M. Lyons

---

March 11, 2019

---

The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

---