



[SF 360](#) – Beginning Farmer Tax Credit (LSB1885SV)
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Fiscal Note Version – New

Description

[Senate File 360](#) expands the existing Beginning Farmer Tax Credit program. The Bill:

- Specifies that an agricultural asset subject to a qualified agreement may include an agricultural improvement (building).
- Removes a requirement that a qualified lease must include agricultural land.
- Increases the current 10-year maximum that a taxpayer may participate in the program to 15 years.
- Allows a taxpayer to participate in the program through multiple agreements and with more than one qualified beginning farmer.
- Allows agreements to be renewed more than once.
- Changes a current \$50,000 per year limit on the annual amount of tax credits a single taxpayer may earn to a \$50,000 per year, per agreement limit.

Background

The Beginning Farmer Tax Credit program provides tax incentives to owners of agricultural assets who enter into leases or other agricultural contracts with qualified beginning farmers. The current tax credit is equal to 5.0% of qualified cash rent payments or 15.0% of the market price of the commodity produced on the land subject to the lease. The owner of the agricultural asset(s) subject to a qualified agreement receives the benefit of the tax credit.

A farmer qualifies as a beginning farmer by meeting all of the following criteria:

- Is a resident of Iowa.
- Has sufficient education, training, or experience in farming.
- Has access to adequate working capital and production items.
- Will materially and substantially participate in farming.
- Does not own more than a 10.0% ownership interest in an agricultural asset included in the agreement with the taxpayer.

The program is subject to a maximum award amount (cap) of \$12.0 million per calendar year. Tax credits awarded under the program totaled \$6.4 million for CY 2019 and \$6.5 million for CY 2020. The highest total for a year was CY 2017 at \$9.6 million. The full award history is provided in the following table.

Beginning Farmer Tax Credit Program Awards
In Millions

Award Year	Award Amount	Award Year	Award Amount
CY 2007	\$ 1.3	CY 2014	\$ 6.5
CY 2008	2.0	CY 2015	7.0
CY 2009	2.7	CY 2016	8.6
CY 2010	3.6	CY 2017	9.6
CY 2011	5.2	CY 2018	6.0
CY 2012	5.8	CY 2019	6.4
CY 2013	6.0	CY 2020	6.5

Assumptions

Although the Beginning Farmer Tax Credit program has an annual cap of \$12.0 million, the program does not have sufficient demand under current law to fully utilize that cap. Utilization over the past three years has averaged \$6.3 million, and the highest recent utilization was CY 2020 at \$6.5 million. Therefore, it is assumed that under current law, the tax credit award demand for future years will equal \$6.5 million per year.

The changes provided in the Bill remove participation restrictions and expand the types of agricultural assets that may be the subject of agreements. It is assumed for this projection that the program expansions will increase awards by \$2.5 million, to \$9.0 million per calendar year.

The credits are not refundable or transferable, but unused credits may be carried forward for up to 10 tax years. For reasons particular to each taxpayer, some earned tax credits are never redeemed on a tax return. Based on the history of tax credit redemptions under this program, the following tax credit redemption pattern is assumed:

- Year of award = 0.0%
- First tax year after award = 28.0%
- Second tax year = 15.0%
- Third through sixth tax year = 7.0%
- Tax credits that expire unused = 29.0%

Fiscal Impact

Expanding the Beginning Farmer Tax Credit program is projected to reduce General Fund revenue by the following amounts:

- FY 2023 = \$0.7 million
- FY 2024 = \$1.1 million
- FY 2025 = \$1.3 million
- FY 2026 = \$1.4 million
- FY 2027 = \$1.6 million
- FY 2028 and after = \$1.8 million

Sources

[Beginning Farmer Tax Credit Program Evaluation Study \(December 2020\)](#)

[Contingent Liabilities Report \(December 2020\)](#)

Department of Revenue

Legislative Services Agency analysis

/s/ Holly M. Lyons

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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.

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