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**HF 495** – Beginning Farmer Program, Sunset Changes (LSB2617HV)  
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Fiscal Note Version – New

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**Description**

[House File 495](#) extends the current Beginning Farmer Tax Credit Program sunset date from January 1, 2018, to January 1, 2023. Under current law, a previous version of the Program will be restored effective January 1, 2018. The restoration is also delayed until January 1, 2023. The Bill is effective July 1, 2018.

**Background**

The Beginning Farmer Tax Credit Program is composed of two tax credits.

The Agricultural Assets Transfer Tax Credit (Ag Assets) is allowed for an owner of agricultural assets that are subject to a lease or rental agreement with a beginning farmer. The lease must be for a term of at least two years, but not more than five years. The tax credit equals 7.0% of the amount paid to the taxpayer under the rental agreement or 17.0% of the amount paid to the taxpayer from crops or animals sold under an agreement in which the payment is exclusively made from the sale of crops or animals. If the beginning farmer is also a veteran, landowners may claim an additional 1.0% of eligible rent or crop share payments.

The Custom Farming Contract Tax Credit (Custom Contract) is available for landowners who hire a beginning farmer to do custom work and allows the landowner to claim 7.0% of the value of the contract as a tax credit. If the beginning farmer is a veteran, the credit is 8.0% for the first year.

Extending the Program will also extend the current annual maximum tax credit amount that may be awarded in a year. The current annual cap is \$12.0 million. Once the current Program sunsets, the previous annual cap of \$6.0 million will be restored.

**Assumptions**

- The \$12.0 million annual cap is assumed to be divided between the two tax credits, with \$8.0 million allocated to Ag Assets and \$4.0 million to Custom Contracts.
- The tax credits are not refundable, but unused credits may carry forward for up to 10 additional tax years. The redemption pattern is assumed to follow the pattern of similar nonrefundable credits with 10-year carryforward provisions.
- As nonrefundable tax credits reduce tax liability, tax credit redemptions also decrease revenue raised by the local option income surtax for schools.
- While the Bill is effective July 1, 2018, the impact is assumed to start with tax year 2018.

**Fiscal Impact**

Extending the current Beginning Farmer Tax Credit Program for five years will increase the redemption of income tax credits and decrease State General Fund revenue by the projected amounts in the following table.

### General Fund Revenue Impact

(In Millions)

	<u>Amount</u>		<u>Amount</u>
FY 2019	\$ -1.4	FY 2025	\$ -1.5
FY 2020	\$ -2.4	FY 2026	\$ -1.0
FY 2021	\$ -3.0	FY 2027	\$ -0.8
FY 2022	\$ -3.4	FY 2028	\$ -0.7
FY 2023	\$ -3.7	FY 2029	\$ -0.6
FY 2024	\$ -2.2		

In addition, the decreased tax liability will decrease the amount of revenue raised by the local option income surtax for schools. The annual reduction averages \$60,000 over 11 fiscal years (FY 2019 through FY 2029).

#### Source

Department of Revenue

/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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