

Beginning Farmer Tax Credit Program

Tax Expenditure Committee – November 18, 2015

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Outline of Remarks

- ▶ Background on the Iowa Beginning Farmer Tax Credit Program
- ▶ Other state and federal incentives
- ▶ Characteristics of beginning and established farmers in Iowa
- ▶ Program awards and claims
- ▶ Measures of program composition and reach

Beginning Farmer Tax Credit Program

- ▶ Annual Program Cap of \$12 million
 - \$8 Million – Agricultural Assets Transfer Tax Credit
 - \$4 Million – Custom Farming Contract Tax Credit
- ▶ Limit of \$50,000 for an individual taxpayer
- ▶ Nonrefundable
- ▶ Not transferable except to estates upon death
- ▶ Ten year carryforward for certificates issued since 2008
- ▶ Applicable against individual income tax and corporation income tax

Agricultural Assets Transfer Tax Credit

- ▶ Began in 2007
- ▶ Awarded to an owner of agricultural assets that are subject to a lease or rental agreement with a beginning farmer
- ▶ 2 to 5 year lease
- ▶ Allowed for asset owners and beginning farmers who are related

Agricultural Assets Transfer Tax Credit Award Amounts

- ▶ Cash rental agreement
 - 7% of the amount paid to the taxpayer
- ▶ Crop share agreement
 - 17% of the estimated lease amount paid to the taxpayer based on county historical average T-yield data and RMA fall price
- ▶ Hybrid or flex lease
 - Based on cash rent base only
 - No tax credit for flex lease bonus
- ▶ When the beginning farmer is a veteran, an additional 1% in the first year of the lease

Custom Farming Contract Tax Credit

- For tax years 2013 through 2017
- Awarded to landowners who hire a beginning farmer to do custom work
- May include all or part of farm operations
- The beginning farmer must own the farm machinery used
- Lease term up to 24 months
- 7% of the value of the contract, additional 1% when the beginning farmer is a veteran
- Not allowed for asset owners and beginning farmers who are related

Recent Legislative Changes

2013

- Changes effective for tax years 2013–2017
- Custom Farming Contract Tax Credit established
- AATTC percentages increased
 - For cash rent agreements, increased from 5% to 7%
 - For crop share agreements, increased from 15% to 17%
- Tax credit cap increased from \$6 million to \$12 million

2014

- Carry forward period extended from 5 to 10 years for credits awarded in 2008 and after

2015

- CFCTC may be awarded for contracts of terms of up to 24 months (formerly 12 months)

Beginning Farmer Eligibility

- ▶ Age 18 or Older
- ▶ Net worth below the limit for tax year
 - Limit = \$703,844 in 2015
 - Indexed to inflation by USDA Prices Paid by Farmers Index
- ▶ Plans to materially participate in farming
- ▶ Has education or experience in farming
- ▶ No requirement regarding maximum farming experience

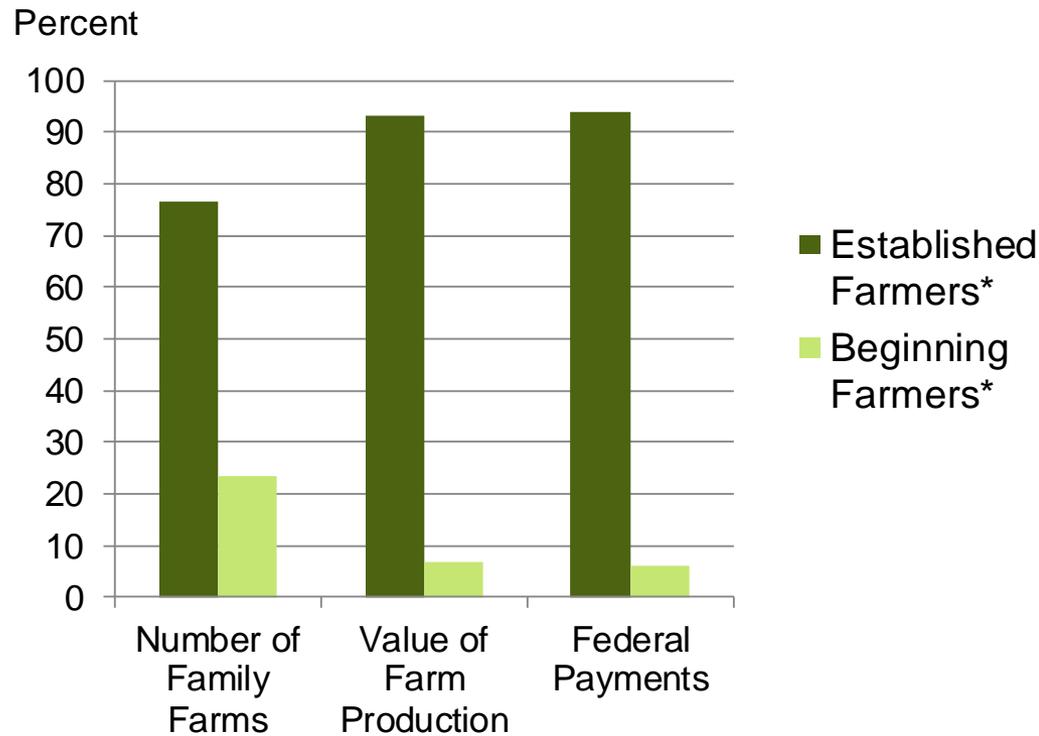
State Tax Credits for Leasing Agricultural Assets to Beginning Farmers

- ▶ **Agricultural Assets Transfer Tax Credit**
 - Nebraska (1999)
 - 10% for cash rent, 15% for crop share
 - Beginning farmer net worth less than \$200 K
 - Has farmed for fewer than 10 of the previous 15 years
 - Tax credit is refundable
 - Tax credit program is not capped
 - Wisconsin (2011 – 2013)
 - Not applicable to farm land
 - 15% for lease amount
- ▶ **Custom Farming Contract Tax Credit**
 - Iowa only

Federal Incentives for Beginning Farmers

- ▶ **USDA Farm Service Agency (FSA)**
 - direct farm loans
 - farm loan guarantees
- ▶ **Aggie Bonds**
- ▶ **Transition Incentive Program (TIP)**

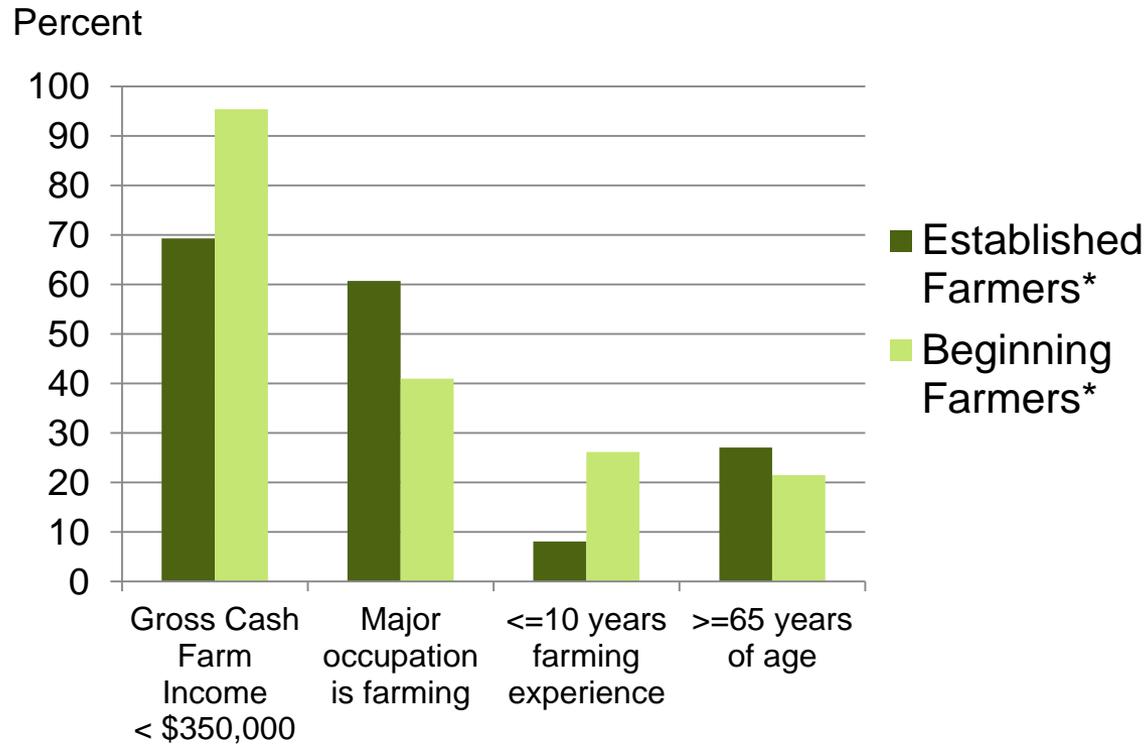
Distribution of Farms, Production, and Federal Payments Between Beginning and Established Farmers in Iowa



* Based on net worth criterion of Iowa Beginning Farmer Tax Credit Program

Source: USDA Agricultural Resource Management Survey, 2013

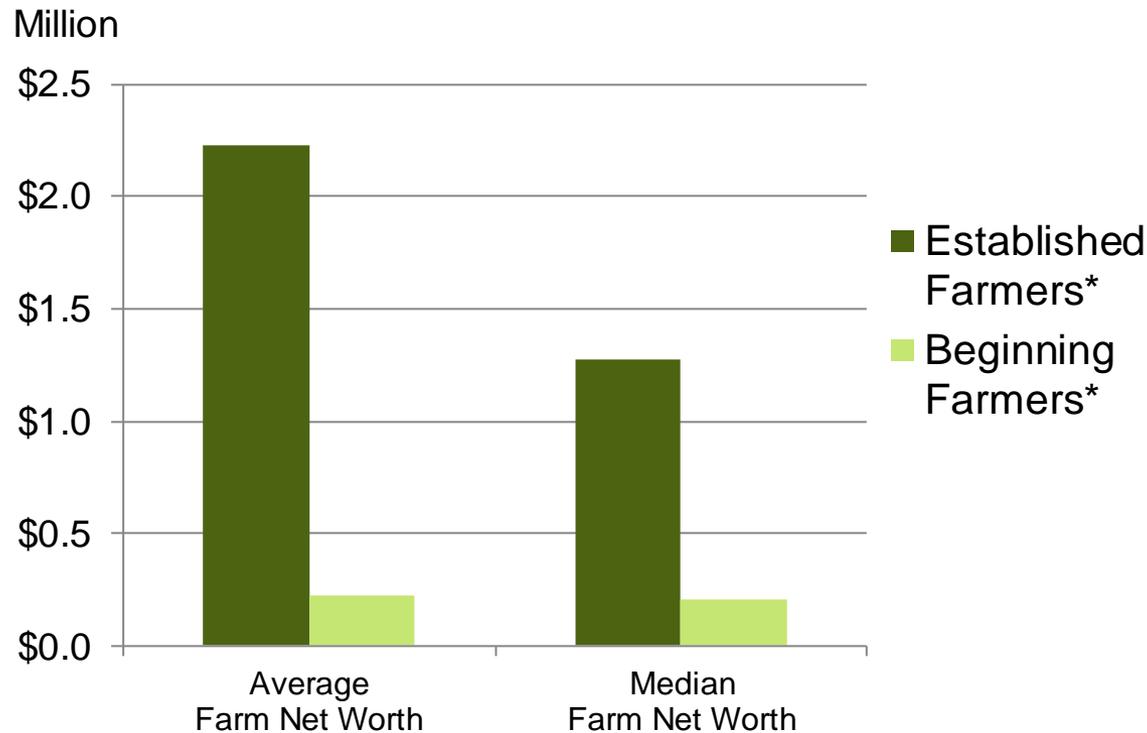
Comparison of Characteristics of Beginning and Established Farmers in Iowa



* Based on net worth criterion of Iowa Beginning Farmer Tax Credit Program

Source: USDA Agricultural Resource Management Survey, 2013

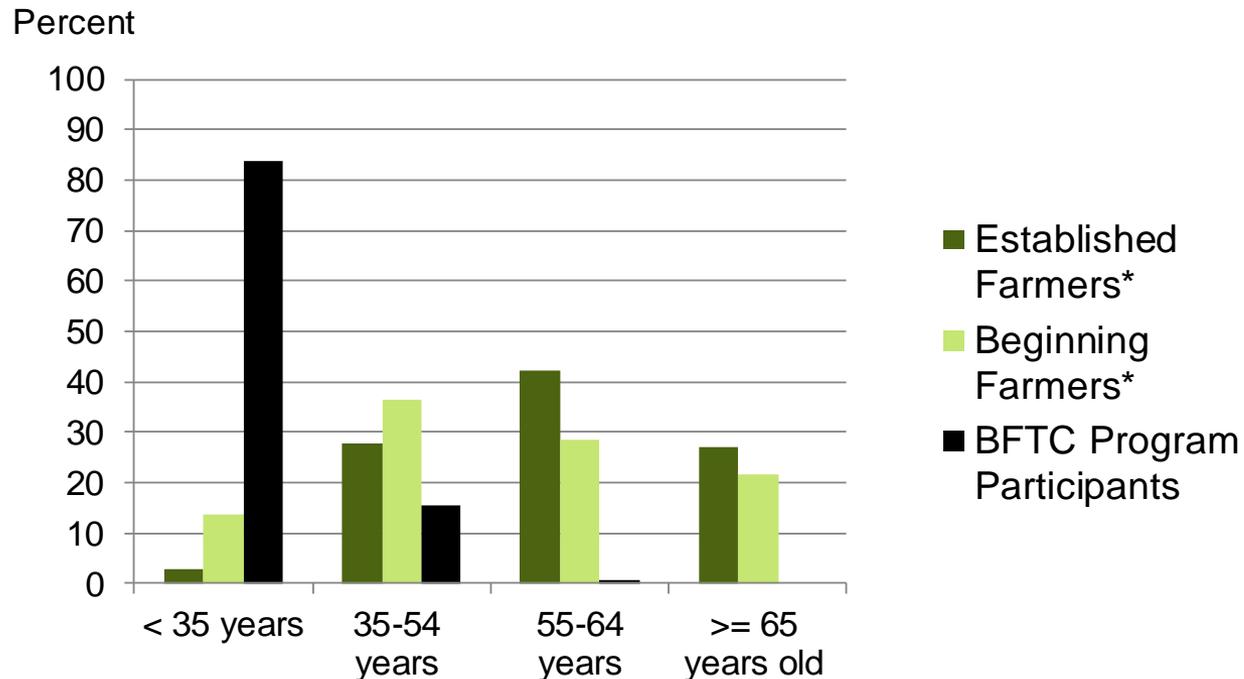
Comparison of Farm Net Worth of Beginning and Established Farmers in Iowa



* Based on net worth criterion of Iowa Beginning Farmer Tax Credit Program

Source: USDA Agricultural Resource Management Survey, 2013

Comparison of Age of Beginning and Established Farmers in Iowa and BFTC Program Participants



* Based on net worth criterion of Iowa Beginning Farmer Tax Credit Program

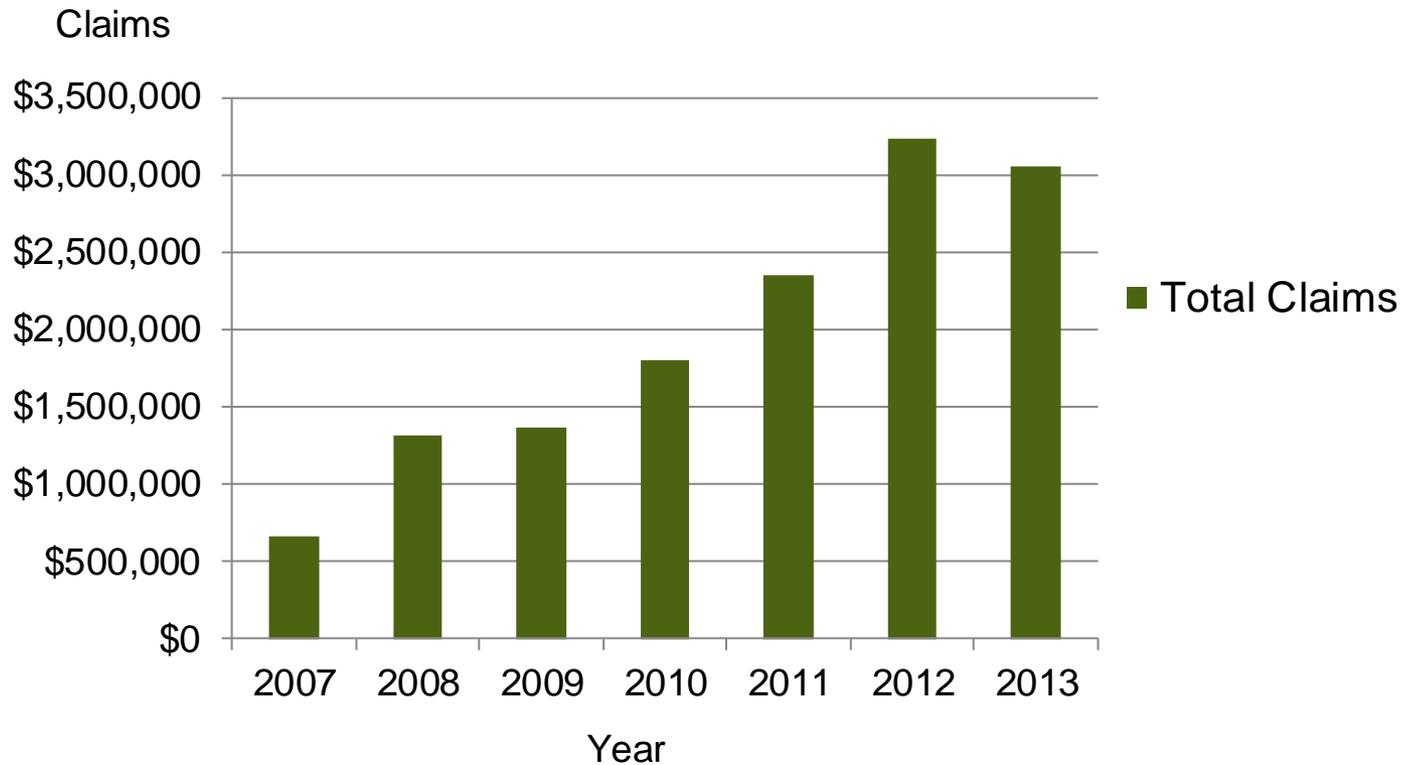
Sources: USDA Agricultural Resource Management Survey, 2013
and Iowa Agricultural Development Division Database

Tax Credit Awards by Year

Award Year	Agricultural Assets Transfer Tax Credit		Custom Farming Contract Tax Credit		Beginning Farmer Tax Credit Program Total	
	Number of Certificates	Award Amount	Number of Certificates	Award Amount	Number of Certificates	Award Amount
2007	287	1,439,685			287	1,439,685
2008	652	2,236,625			652	2,236,625
2009	696	2,604,843			696	2,604,843
2010	767	3,583,654			767	3,583,654
2011	787	5,289,398			787	5,289,398
2012	726	5,763,537			726	5,763,537
2013	640	5,992,594	10	28,975	650	6,021,569
2014	917	6,491,480	14	30,046	931	6,521,526
Total	5,472	\$33,401,816	24	\$59,020	5,496	\$33,460,836

Source: Iowa Agricultural Development Division

Beginning Farmer Tax Credit Program Claims by Year



Source: Iowa Department of Revenue IA 148 Tax Credits Schedule
Tax year 2013 is incomplete

Beginning Farmer Tax Credit Program Claims by Award Year

Award Year	Award Amount	Tax Credit Claim Year							
		2007	2008	2009	2010	2011	2012	2013	Total
2007	\$1,259,103	52%	21%	8%	6%	6%	3%	N/A	97%
2008	\$2,032,760		51%	14%	6%	8%	4%	4%	87%
2009	\$2,663,338			37%	14%	8%	6%	3%	68%
2010	\$3,598,502				33%	15%	11%	5%	64%
2011	\$5,222,987					26%	19%	7%	52%
2012	\$5,756,759						27%	11%	38%
2013	\$6,020,726							28%	28%

Source: Iowa Department of Revenue IA 148 Tax Credits Schedule
Tax year 2013 is incomplete

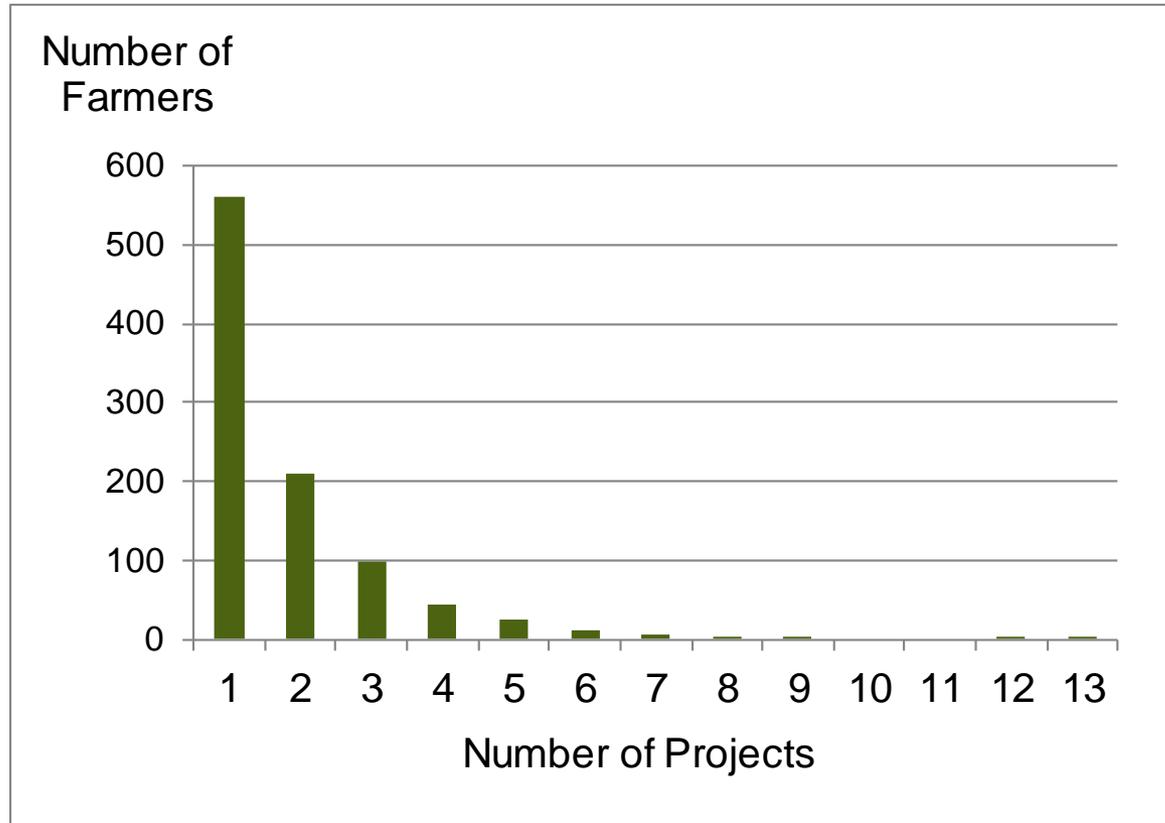
Number of New Program Projects and Participating Beginning Farmers by Tax Credit and Project First Year

Project First Year	Number of AATTC Projects	Number of CFCTC Projects	Total Tax Credit Program Projects	Number of Beginning Farmers
2008*	488	--	488	339
2009	147	--	147	72
2010	180	--	180	83
2011	140	--	140	70
2012	167	--	167	84
2013	194	10	204	109
2014	408	11	419	206
TOTAL	1,724	21	1,745	963

Source: Iowa Agricultural Development Division Database

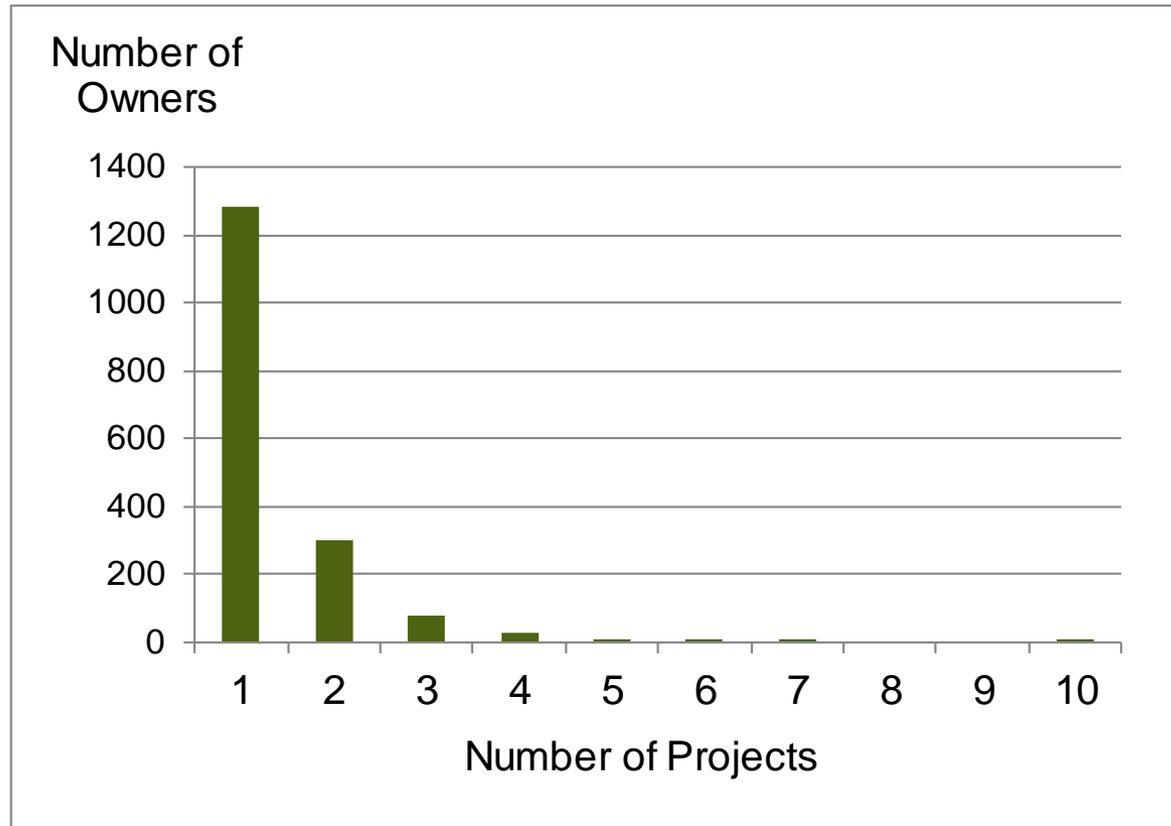
* Data for 2008 includes all projects begun in both 2007 and 2008

Beginning Farmer Tax Credit Program Number of Projects per Beginning Farmer, 2007–2014



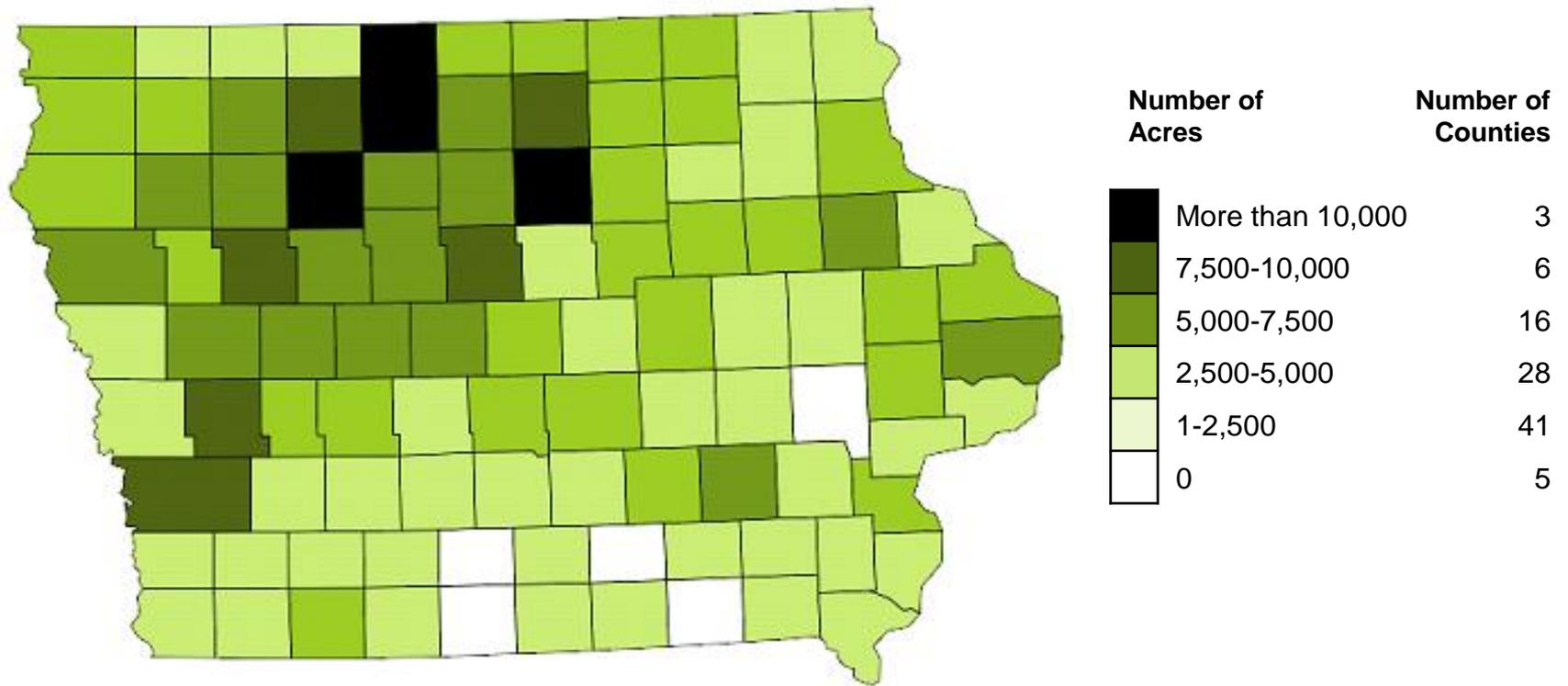
Source: Iowa Agricultural Development Division Database

Beginning Farmer Tax Credit Program Number of Projects per Land Owner, 2007-2014



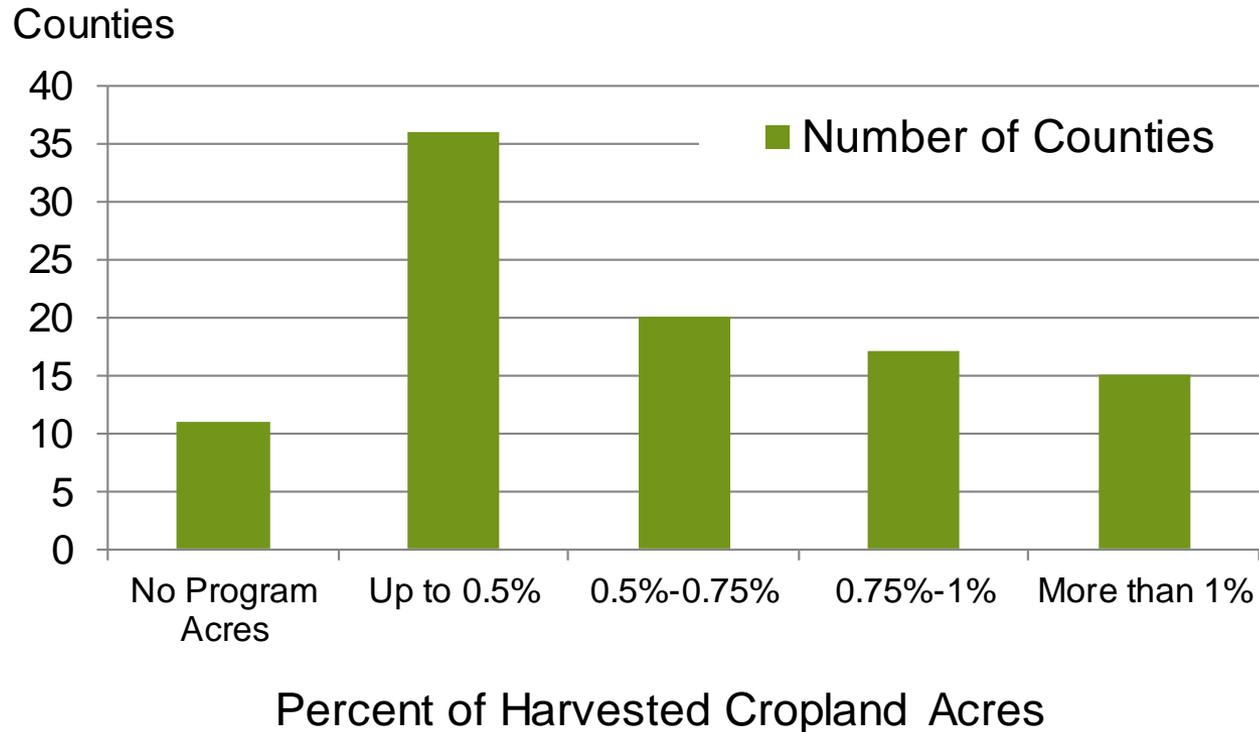
Source: Iowa Agricultural Development Division Database

Total Acres of Agricultural Assets Transfer Tax Credit Projects by County, 2007-2014



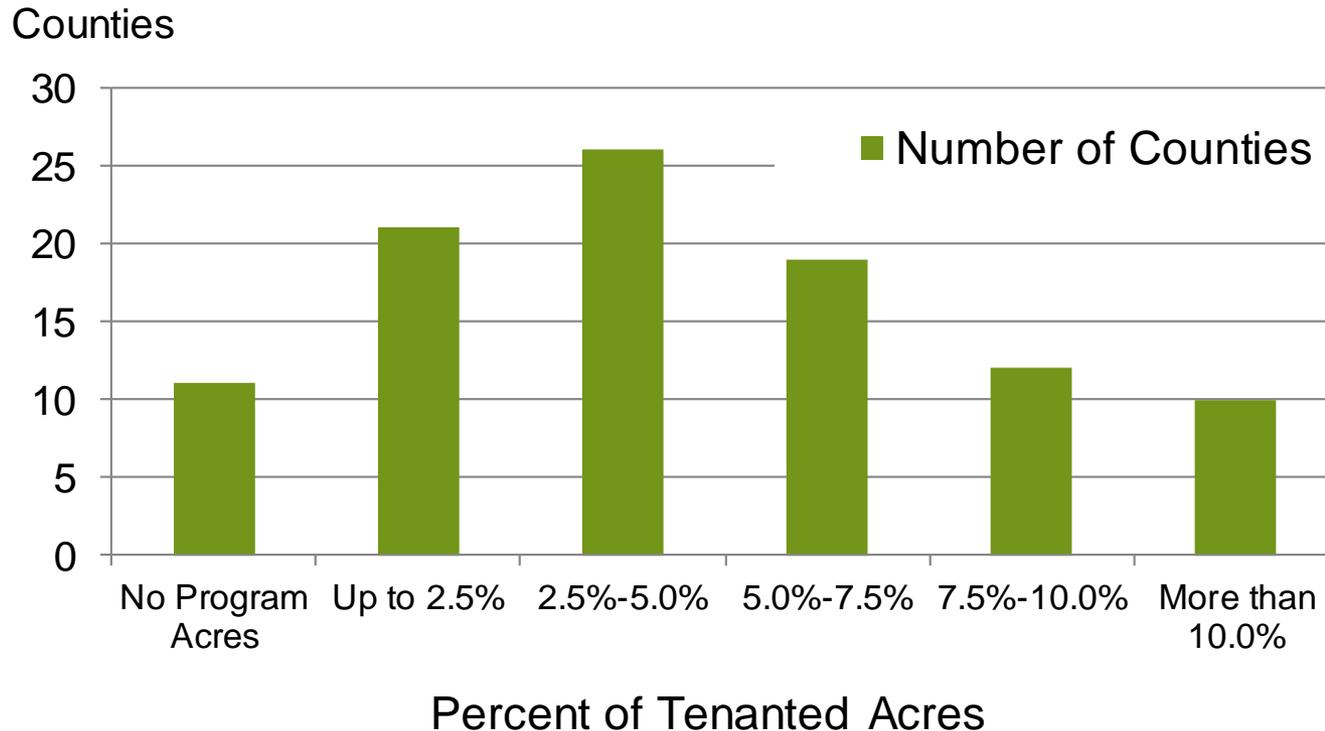
Source: Iowa Agricultural Development Division Database

Agricultural Assets Transfer Tax Credit Lease Project Acres as a Percent of Harvested Cropland by County, 2014



Sources: Iowa Agricultural Development Division Database and
USDA Census of Agriculture

Agricultural Assets Transfer Tax Credit Lease Project Acres as a Percent of Tenant-Operated Acres by County, 2014



Sources: Iowa Agricultural Development Division Database and
USDA Census of Agriculture

Agricultural Assets Transfer Tax Credit Lease Income

Certificate Year	Cash Rent Lease Income*	Crop Share Lease Income	Cash Rent Lease Income X Tax Credit Rate	Crop Share Lease Income X Tax Credit Rate	Estimated Crop Share Tax Credit Percent of Total
2008	\$10,594,952	\$10,381,813	\$529,748	\$1,557,272	75%
2009	\$11,918,673	\$12,437,342	\$595,934	\$1,865,601	76%
2010	\$12,622,587	\$18,420,914	\$631,129	\$2,763,137	81%
2011	\$14,705,741	\$28,548,636	\$735,287	\$4,282,295	85%
2012	\$14,637,699	\$31,718,080	\$731,885	\$4,757,712	87%
2013	\$15,017,258	\$30,433,281	\$1,051,208	\$5,173,658	83%
2014	\$22,412,141	\$29,737,218	\$1,568,850	\$5,055,327	76%

Sources: Iowa Agricultural Development Division Database and Iowa Department of Revenue Calculations

* Includes lease income from hybrid projects.

Tax Credit Amounts are Related to Crop Yields and Prices

Crop Share Leases

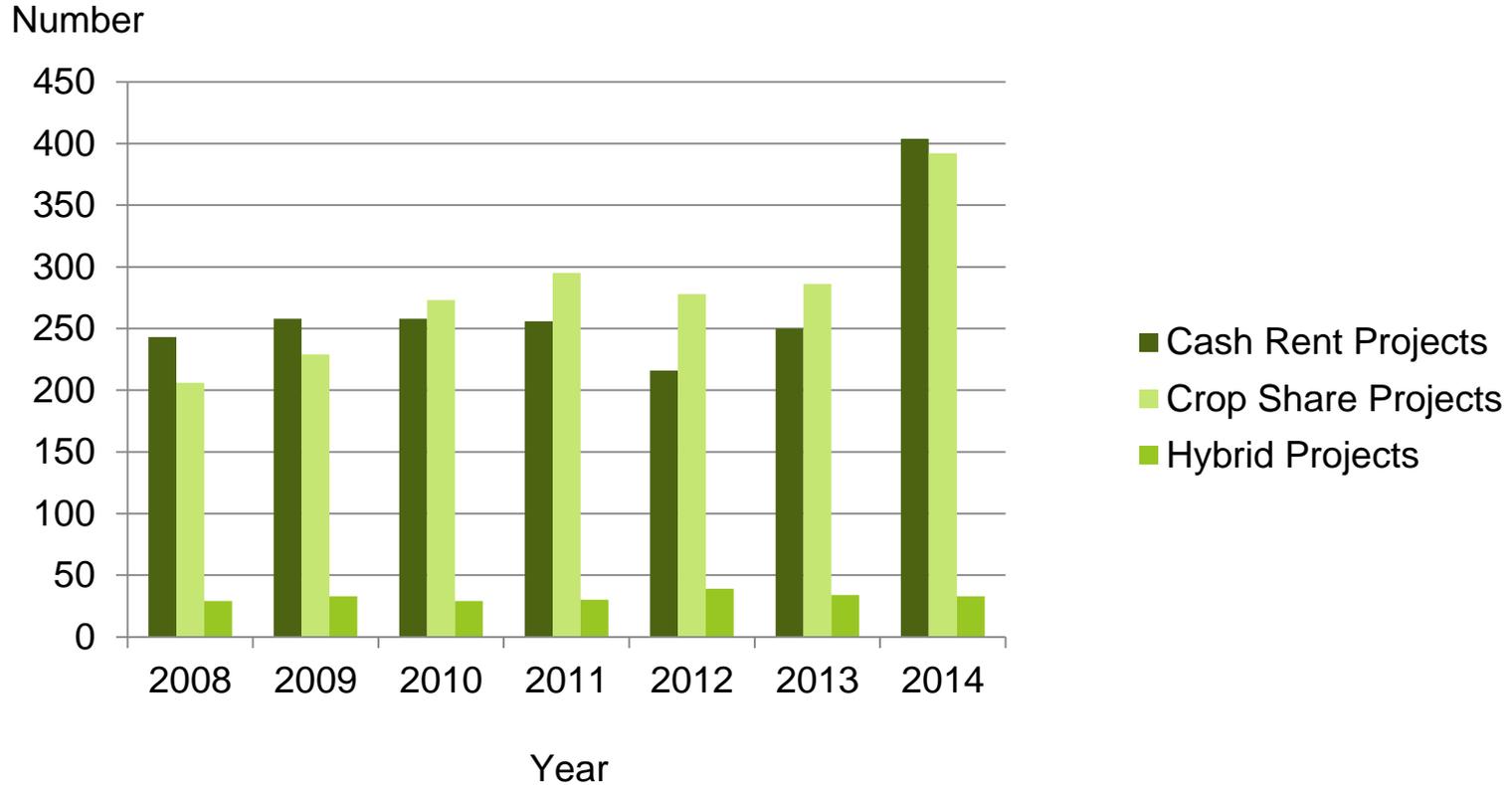
Tax Credit = 17% of Lease Income

Lease Income = Owner Percentage * T-Yield * Price * Project Acres

Year	Corn Price	Soybeans Price	Program-Calculated Lease Income		Tax Credit Total	
			Actual	Assuming Prices and Yields of Other Year	Actual	Assuming Prices and Yields of Other Year
2013	\$7.40	\$14.48	\$30,400,000	\$21,300,000	\$5,168,000	\$3,621,000
2014	\$4.39	\$12.87	\$29,700,000	\$42,500,000	\$5,049,000	\$7,225,000

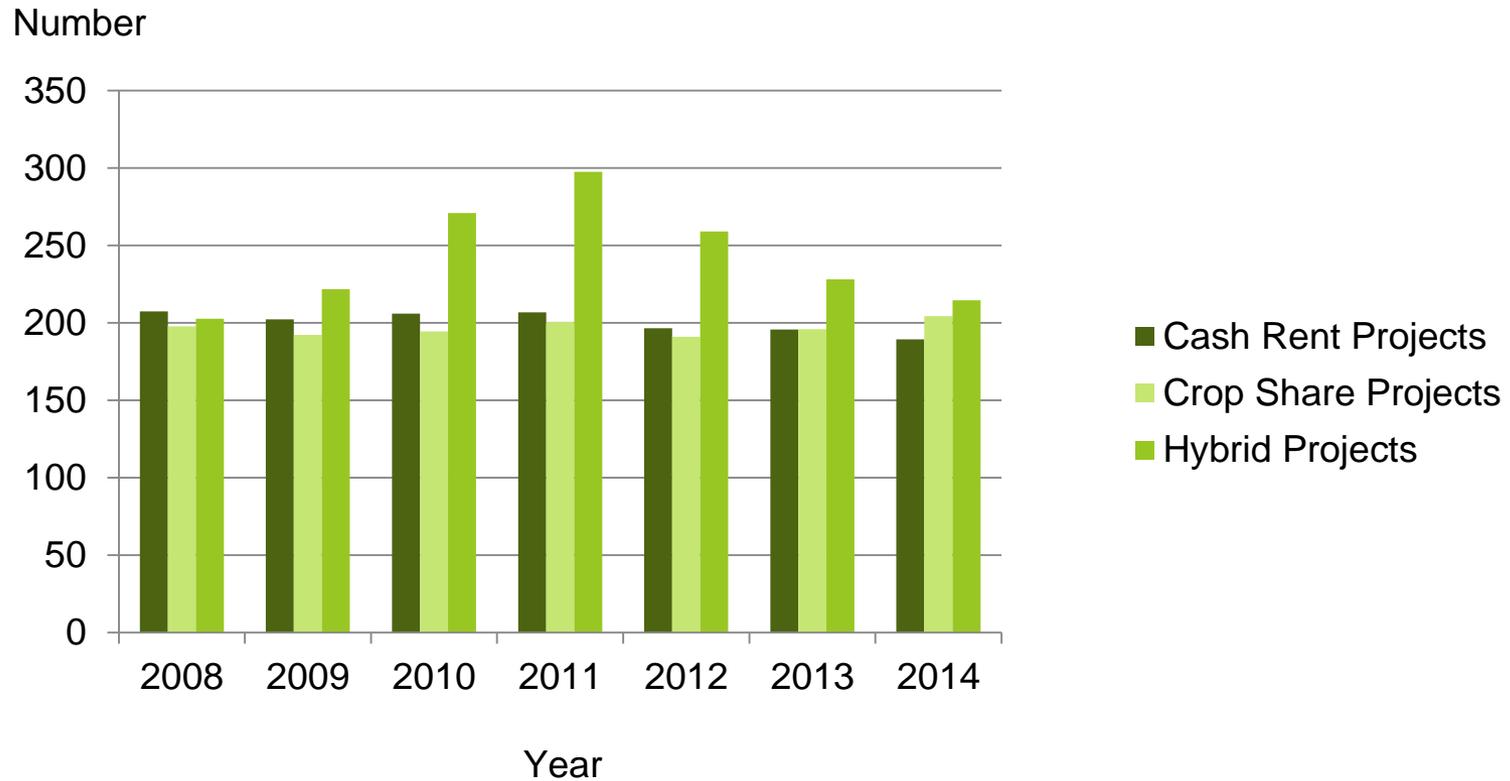
Source: Iowa Department of Revenue Analysis

Total Number of AATTC Projects by Lease Type



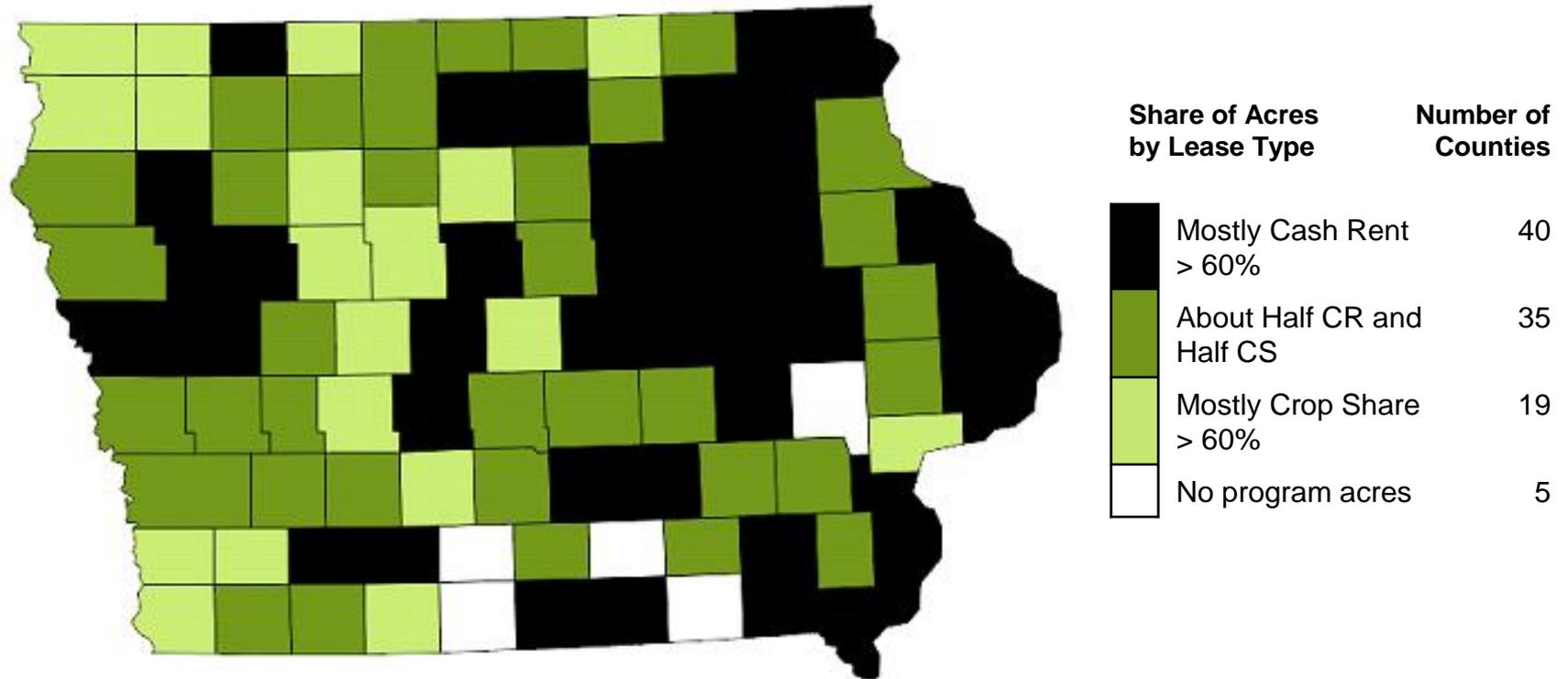
Source: Iowa Agricultural Development Division Database

Average AATC Project Acreage by Lease Type



Source: Iowa Agricultural Development Division Database

Share of Agricultural Assets Transfer Tax Credit Project Acres by Lease Type by County, 2007–2014*



Source: Iowa Agricultural Development Division Database

* Excludes hybrid lease acres

Questions?