

2/20/96 W. & Means

FILED FEB 20 1996

SENATE FILE 2231

BY PRIEBE

(COMPANION TO LSB 3227HH

BY MERTZ)

Passed Senate, Date _____ Passed House, Date _____

Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____

Approved _____

A BILL FOR

1 An Act relating to an individual income tax deduction for certain
2 contract sales of agricultural property made to beginning
3 farmers and providing effective and applicability date
4 provisions.

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

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S.F. 2231

1 Section 1. Section 422.7, Code Supplement 1995, is amended
2 by adding the following new subsection:

3 NEW SUBSECTION. 35. a. Subtract the amount computed
4 under this subsection for the contract sale of agricultural
5 land to a beginning farmer with interest charged at less than
6 an annual percentage rate of eight percent. The amount of the
7 deduction for a tax year equals the product of the difference
8 between an annual percentage interest rate of eight percent
9 and the annual percentage interest rate under the contract
10 multiplied by the amount of principal, not to exceed four
11 hundred thousand dollars, on the agricultural land left to be
12 paid, determined as of the first day of the tax year. If the
13 contract was initially entered into during the tax year, the
14 principal is the amount, not to exceed four hundred thousand
15 dollars, as of the first day the contract is entered into.

16 b. The deduction in this subsection is only allowed if all
17 of the following apply:

18 (1) The contract sale is for agricultural land which may
19 include agricultural improvements as both terms are defined in
20 section 175.2.

21 (2) The contract sale is to a beginning farmer as defined
22 in section 175.2.

23 (3) The contract sale is for at least twenty years.

24 (4) The value of the agricultural land and any
25 improvements has been assessed by the agricultural development
26 authority. The authority shall determine the fraction of the
27 total value that is agricultural land and that fraction shall
28 be used in determining the amount of principal left to be paid
29 for the agricultural land under paragraph "a".

30 c. The deduction in this subsection shall continue for a
31 subsequent tax year if all of the following apply:

32 (1) The agricultural land continues to be used for farming
33 by a beginning farmer.

34 (2) The sales contract has not been transferred except as
35 a result of death or upon approval of the agricultural

1 development authority.

2 d. Notwithstanding the amount computed under paragraph
3 "a", the amount deducted under this subsection shall not
4 result in the adjusted gross income, after all other
5 deductions under this section, being reduced below zero. If
6 the amount computed under paragraph "a" would reduce the
7 adjusted gross income below zero any excess amount shall not
8 be carried forward or backward to other tax years.

9 Sec. 2. This Act, being deemed of immediate importance,
10 takes effect upon enactment and applies to contract sales of
11 agricultural land entered into after the effective date of
12 this Act and during tax years ending after the effective date
13 of this Act.

14 EXPLANATION

15 The bill allows an individual income tax deduction for
16 contract sales of agricultural land to beginning farmers at an
17 interest rate of less than 8 percent. The amount of the
18 deduction equals the difference between an 8 percent interest
19 rate and the contract sale interest rate multiplied by the
20 amount, up to \$400,000, of the contract sale which is for
21 agricultural land. This deduction will continue for
22 succeeding years if the land continues to be used for farming
23 by a beginning farmer. The amount of the deduction would be
24 reduced each year as the amount of the contract principal for
25 the agricultural land is reduced by previous payments.
26 However, this deduction cannot be used to reduce the
27 taxpayer's adjusted gross income below zero and any excess
28 deduction cannot be carried forward or backward.

29 The bill takes effect upon enactment for contract sales of
30 agricultural land entered into after that date during tax
31 years ending after that date.

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