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Agriculture

HOUSE FILE 137

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Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to tax credits provided for purposes of acquiring
2 agricultural assets by beginning farmers, and providing
3 effective and applicability dates.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

HF 137

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1 Section 1. Section 175.2, Code 2005, is amended by adding
2 the following new subsections:

3 NEW SUBSECTION. 0A. "Actively engaged in farming" means
4 that a person does any of the following:

5 a. Inspects the production activities periodically and
6 furnishes at least half of the value of the tools used for
7 crop or livestock production and pays at least half the direct
8 cost of crop or livestock production.

9 b. Regularly and frequently makes or takes an important
10 part in making management decisions substantially contributing
11 to or affecting the success of the farm operation.

12 c. Performs physical work which significantly contributes
13 to crop or livestock production.

14 NEW SUBSECTION. 0B. "Agricultural assets" means
15 agricultural land, depreciable agricultural property, crops,
16 or livestock.

17 NEW SUBSECTION. 10A. "Farming entity" means any of the
18 following:

19 a. An individual or a fiduciary for an individual who
20 regularly participates in physical labor or operations
21 management in a farming operation and files schedule F as part
22 of the person's annual form 1040 or form 1041 filing with the
23 United States internal revenue service.

24 b. A family farm corporation, family farm limited
25 liability company, family farm limited partnership, or family
26 trust, as defined in section 9H.1.

27 c. A general partnership as organized under chapter 486,
28 Code 1999, or chapter 486A, in which all of the partners are
29 natural persons and at least one of the partners is actively
30 engaged in farming.

31 Sec. 2. NEW SECTION. 175.37 AGRICULTURAL ASSETS -- TAX
32 CREDITS.

33 1. A tax credit is allowed against the taxes imposed in
34 chapter 422, division II or division III, to facilitate the
35 acquisition of agricultural assets by beginning farmers. An

1 individual shall not claim a tax credit that is allowed for a
2 family farm entity unless the family farm entity elects to
3 have income taxed directly to the individual. The amount
4 claimed by the individual shall be based upon the pro rata
5 share of the individual's earnings from the family farm
6 entity.

7 2. In order to qualify for the tax credit, the taxpayer
8 must meet qualifications established by rules adopted by the
9 authority. At a minimum, the taxpayer must be a family farm
10 entity who is the titleholder of the agricultural assets. In
11 addition, at least fifty percent of the family farm entity's
12 gross annual income must be derived from farming as computed
13 in the person's annual tax return for the preceding tax year
14 filed with the United States internal revenue service. In
15 order to qualify as a beginning farmer, a person must be
16 eligible to receive financial assistance under section 175.12.

17 3. The tax credit is allowed only for agricultural assets
18 that are subject to a lease or rental agreement. The
19 agreement may be made on a cash basis or on a commodity share
20 basis which includes a share of the crops or livestock
21 produced on the agricultural land. The agreement must be in
22 writing and must be for a term of at least three years.

23 4. The tax credit shall equal five percent of the gross
24 income paid to the taxpayer under the lease or rental
25 agreement. The taxpayer may claim the tax credit for not more
26 than three tax years. A tax credit in excess of the
27 taxpayer's liability for the tax year may be credited to the
28 tax liability for the following five years or until depleted,
29 whichever is earlier. A tax credit shall not be carried back
30 to a tax year prior to the tax year in which the taxpayer
31 redeems the tax credit. A tax credit shall not be
32 transferable to any other taxpayer.

33 5. A taxpayer shall not claim a tax credit under this
34 section unless a tax credit certificate issued by the
35 authority is attached to the taxpayer's tax return for the tax

1 year for which the tax credit is claimed. The authority must
2 review and approve an application for a tax credit as provided
3 by rules adopted by the authority. The application must
4 include a copy of the lease or rental agreement. The
5 authority may approve an application and issue a tax credit
6 certificate to a taxpayer who has previously been allowed a
7 tax credit under this section. However, the authority shall
8 not approve an application or issue a certificate to a
9 taxpayer if any of the following applies:

10 a. The taxpayer is at fault for terminating a prior lease
11 or rental agreement subject to this section as determined by
12 the authority.

13 b. The taxpayer is any of the following:

14 (1) A party to a pending administrative or judicial
15 action, including a contested case proceeding under chapter
16 17A, relating to an alleged violation involving an animal
17 feeding operation as regulated by the department of natural
18 resources, regardless of whether the pending action is brought
19 by the department or the attorney general.

20 (2) Classified as a habitual violator for a violation of
21 state law involving an animal feeding operation as regulated
22 by the department of natural resources.

23 c. The beginning farmer is responsible for managing or
24 maintaining agricultural land and other agricultural assets
25 that are greater than necessary in order to adequately support
26 a beginning farmer as determined by the authority according to
27 rules which shall be adopted by the authority.

28 d. The agricultural assets are being leased or rented at a
29 rate which is substantially higher or lower than the market
30 rate for similar agricultural assets leased or rented within
31 the same community, as determined by the authority.

32 6. The authority shall review each existing lease or
33 rental agreement which is part of an application approved by
34 the authority on a quarterly basis. The authority may require
35 that the taxpayer and the beginning farmer provide additional

1 information as determined relevant by the authority.

2 7. A taxpayer or the beginning farmer may terminate a
3 lease or rental agreement as provided in the agreement or by
4 law. The taxpayer must immediately notify the authority of
5 the termination.

6 a. If the authority determines that the taxpayer is not at
7 fault for the termination, the authority shall not issue a tax
8 certificate to the taxpayer for a subsequent tax year based on
9 the approved application. Any prior tax credit is allowed as
10 provided in this section. The taxpayer may apply for and be
11 issued another tax credit certificate for the same
12 agricultural assets as provided in this section for any
13 remaining tax years for which a certificate was not issued.

14 b. If the authority determines that the taxpayer is at
15 fault for the termination, any prior tax credit allowed under
16 this section is disallowed. The tax credit shall be
17 recaptured and the amount of the tax credit shall be
18 immediately due and payable to the department of revenue. If
19 a taxpayer does not immediately notify the authority of the
20 termination, the taxpayer shall be conclusively deemed at
21 fault for the termination.

22 Sec. 3. APPLICABILITY AND EFFECTIVE DATES. This Act takes
23 effect January 1, 2006, and is applicable to tax years
24 beginning on or after that date.

25 EXPLANATION

26 This bill amends provisions regarding the agricultural
27 development authority (referred to as the "authority")
28 established in Code chapter 175, the "Iowa Agricultural
29 Development Act". The authority is an instrumentality housed
30 in the office of treasurer of state that is responsible for
31 administering a number of programs to assist agricultural
32 producers, including the beginning farmer program. A
33 beginning farmer is an individual, partnership, family farm
34 corporation, or family farm limited liability company as
35 provided under Code chapter 9H (Iowa's corporate farming law),

1 with a low or moderate net worth who engages in farming or
2 wishes to engage in farming.

3 The bill provides a tax credit for owners of agricultural
4 assets (agricultural land, depreciable agricultural property,
5 crops, or livestock) who help beginning farmers to acquire
6 agricultural assets by lease or rental arrangements. The tax
7 credit may be taken against individual or corporate income.
8 An owner (referred to as the taxpayer) claims the tax credit
9 after receiving a certificate issued by the authority which is
10 attached to the taxpayer's tax return. The bill provides for
11 limited carry forward but does not provide for carry back or
12 transfer.

13 In order to be eligible for the tax credit, the taxpayer
14 must apply to the authority and satisfy several conditions.
15 The owner must be a person who is an individual or organized
16 as a general partnership or a type of family farm entity which
17 can hold unlimited agricultural land under Code chapter 9H.
18 The individual or at least one equity holder of the
19 organization must be actively engaged in farming and at least
20 50 percent of the person's income must be derived from
21 farming. The tax credit depends upon the owner and the
22 beginning farmer executing a written lease or rental agreement
23 for at least three years. The amount of the tax credit is 5
24 percent of the gross income paid to the owner under the
25 agreement. The owner may claim the tax credit for each tax
26 year for three years, regardless of whether the agreement is
27 extended.

28 The bill provides a number of restrictions upon the
29 authority in approving applications and issuing certificates.
30 The taxpayer cannot be at fault for terminating a prior lease;
31 the taxpayer cannot be involved in legal proceedings regarding
32 environmental violations; the beginning farmer cannot be
33 provided more agricultural assets than what the beginning
34 farmer can be expected to adequately manage; and the
35 agricultural assets cannot be leased or rented at a rate

1 substantially different from similar market arrangements.

2 The bill provides that an agreement may be terminated but
3 also provides that if the termination is the fault of the
4 owner, any tax credits must be repaid and no further tax
5 credit certificates can be issued to the owner.

6 The bill takes effect on January 1, 2006, and applies to
7 tax years beginning on or after that date.

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