

JAN 18 2006  
WAYS AND MEANS

HOUSE FILE 2072

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Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

HF 2072

A BILL FOR

1 An Act relating to financial transactions associated with  
2 agricultural production, by providing for a tax credit to  
3 facilitate the transfer of assets, and including an effective  
4 and applicability date.

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

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

3 NEW SUBSECTION. 0A. "Agricultural assets" means  
4 agricultural land, depreciable agricultural property, crops,  
5 or livestock.

6 Sec. 2. NEW SECTION. 175.37 AGRICULTURAL ASSETS TRANSFER  
7 TAX CREDIT -- AGREEMENT.

8 1. An agricultural assets transfer tax credit is allowed  
9 under this section. The tax credit is allowed against the  
10 taxes imposed in chapter 422, division II, as provided in  
11 section 422.11M, and in chapter 422, division III, as provided  
12 in section 422.33, to facilitate the transfer of agricultural  
13 assets from a taxpayer to a beginning farmer.

14 2. In order to qualify for the tax credit, the taxpayer  
15 must meet qualifications established by rules adopted by the  
16 authority. At a minimum, the taxpayer must comply with all of  
17 the following:

18 a. Be a person who may acquire or otherwise obtain or  
19 lease agricultural land in this state pursuant to chapter 9H  
20 or 9I. However, the taxpayer must not be a person who may  
21 acquire or otherwise obtain or lease agricultural land  
22 exclusively because of an exception provided in one of those  
23 chapters or in a provision of another chapter of this Code  
24 including but not limited to chapter 10, 10C, 10D, or 501, or  
25 section 15E.207.

26 b. Execute an agricultural assets transfer agreement as  
27 provided in this section.

28 3. An individual may claim a tax credit under this section  
29 of a partnership, limited liability company, S corporation,  
30 estate, or trust electing to have income taxed directly to the  
31 individual. The amount claimed by the individual shall be  
32 based upon the pro rata share of the individual's earnings  
33 from the partnership, limited liability company, S  
34 corporation, estate, or trust.

35 4. The tax credit is allowed only for agricultural assets

1 that are subject to an agricultural assets transfer agreement.  
2 The agreement shall provide for the lease of agricultural land  
3 improvements and may provide for the rental of agricultural  
4 equipment as defined in section 322F.1.

5 a. The agreement may be made on a cash basis or on a  
6 commodity share basis which includes a share of the crops or  
7 livestock produced on the agricultural land. The agreement  
8 must be in writing.

9 b. The agreement must provide for the lease of the  
10 agricultural land for a term of at least two years, and the  
11 agreement or that part of the agreement providing for the  
12 lease may be renewed by the lessee for a term of at least two  
13 years. The taxpayer may claim the tax credit under the  
14 renewal agreement in the same manner as the original  
15 agreement. An agreement does not include a lease or the  
16 rental of equipment intended as a security.

17 5. The tax credit shall be calculated based on the gross  
18 amount paid to the taxpayer under the agricultural assets  
19 transfer agreement.

20 a. Except as provided in paragraph "b", the tax credit  
21 shall equal five percent of the amount paid to the taxpayer  
22 under the agreement.

23 b. The tax credit shall equal fifteen percent of the  
24 amount paid to the taxpayer from crops or animals sold under  
25 an agreement in which the payment is exclusively made from the  
26 sale of crops or animals.

27 6. a. In order to qualify as a beginning farmer, a person  
28 must be eligible to receive financial assistance under section  
29 175.12. The taxpayer may claim the tax credit on the gross  
30 amount paid to the taxpayer under an agricultural assets  
31 transfer agreement as provided in this section until the  
32 beginning farmer is no longer eligible to receive financial  
33 assistance under section 175.12.

34 b. A tax credit in excess of the taxpayer's liability for  
35 the tax year may be credited to the tax liability for the

1 following five years or until depleted, whichever is earlier.  
2 A tax credit shall not be carried back to a tax year prior to  
3 the tax year in which the taxpayer redeems the tax credit. A  
4 tax credit shall not be transferable to any other person other  
5 than the taxpayer's estate or trust upon the taxpayer's death.  
6 7. A taxpayer shall not claim a tax credit under this  
7 section unless a tax credit certificate issued by the  
8 authority is attached to the taxpayer's tax return for the tax  
9 year for which the tax credit is claimed. The authority must  
10 review and approve an application for a tax credit as provided  
11 by rules adopted by the authority. The application must  
12 include a copy of the agricultural assets transfer agreement.  
13 The authority may approve an application and issue a tax  
14 credit certificate to a taxpayer who has previously been  
15 allowed a tax credit under this section. However, the  
16 authority shall not approve an application or issue a  
17 certificate to a taxpayer if any of the following applies:  
18 a. The taxpayer is at fault for terminating a prior  
19 agricultural assets transfer agreement as determined by the  
20 authority.  
21 b. The taxpayer is any of the following:  
22 (1) A party to a pending administrative or judicial  
23 action, including a contested case proceeding under chapter  
24 17A, relating to an alleged violation involving an animal  
25 feeding operation as regulated by the department of natural  
26 resources, regardless of whether the pending action is brought  
27 by the department or the attorney general.  
28 (2) Classified as a habitual violator for a violation of  
29 state law involving an animal feeding operation as regulated  
30 by the department of natural resources.  
31 c. The beginning farmer is responsible for managing or  
32 maintaining agricultural land and other agricultural assets  
33 that are greater than necessary to adequately support a  
34 beginning farmer as determined by the authority according to  
35 rules which shall be adopted by the authority.

1 d. The agricultural assets are being leased or rented at a  
2 rate which is substantially higher or lower than the market  
3 rate for similar agricultural assets leased or rented within  
4 the same community, as determined by the authority.

5 8. The authority shall review each existing agricultural  
6 assets transfer agreement which is part of an application  
7 approved by the authority on a quarterly basis. The authority  
8 may require that the taxpayer and the beginning farmer provide  
9 additional information as determined relevant by the  
10 authority.

11 9. A taxpayer or the beginning farmer may terminate an  
12 agricultural assets transfer agreement as provided in the  
13 agreement or by law. The taxpayer must immediately notify the  
14 authority of the termination.

15 a. If the authority determines that the taxpayer is not at  
16 fault for the termination, the authority shall not issue a tax  
17 certificate to the taxpayer for a subsequent tax year based on  
18 the approved application. Any prior tax credit is allowed as  
19 provided in this section. The taxpayer may apply for and be  
20 issued another tax credit certificate for the same  
21 agricultural assets as provided in this section for any  
22 remaining tax years for which a certificate was not issued.

23 b. If the authority determines that the taxpayer is at  
24 fault for the termination, any prior tax credit allowed under  
25 this section is disallowed. The tax credit shall be  
26 recaptured and the amount of the tax credit shall be  
27 immediately due and payable to the department of revenue. If  
28 a taxpayer does not immediately notify the authority of the  
29 termination, the taxpayer shall be conclusively deemed at  
30 fault for the termination.

31 **Sec. 3. NEW SECTION. 422.11M AGRICULTURAL ASSETS**  
32 **TRANSFERRED TO BEGINNING FARMERS.**

33 The taxes imposed under this division, less the credits  
34 allowed under sections 422.12 and 422.12B, shall be reduced by  
35 an agricultural assets transfer tax credit as allowed under

1 section 175.37.

2 Sec. 4. Section 422.33, Code Supplement 2005, is amended  
3 by adding the following new subsection:

4 NEW SUBSECTION. 20. The taxes imposed under this division  
5 shall be reduced by an agricultural assets transfer tax credit  
6 as allowed under section 175.37.

7 Sec. 5. EFFECTIVE DATE AND RETROACTIVE APPLICABILITY  
8 PROVISIONS. This Act takes effect January 1, 2007, and is  
9 applicable to tax years beginning on or after that date.

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EXPLANATION

11 This bill amends provisions regarding the agricultural  
12 development authority established in Code chapter 175, the  
13 "Iowa Agricultural Development Act". The authority is an  
14 instrumentality housed in the office of treasurer of state  
15 that is responsible for administering a number of programs to  
16 assist agricultural producers, including the beginning farmer  
17 program. A beginning farmer is an individual, partnership,  
18 family farm corporation, or family farm limited liability  
19 company as provided under Code chapter 9H (Iowa's corporate  
20 farming law), with a low or moderate net worth who engages in  
21 farming or wishes to engage in farming.

22 The bill provides a tax credit for owners of agricultural  
23 assets (agricultural land, depreciable agricultural property,  
24 crops, or livestock) who help beginning farmers to acquire  
25 agricultural assets by lease or rental arrangements. The bill  
26 provides that the owner who executes an agricultural assets  
27 transfer agreement (referred to as the agreement) may claim a  
28 tax credit against individual or corporate income. The owner  
29 (referred to as the taxpayer) may claim the tax credit after  
30 receiving a certificate issued by the authority which is  
31 attached to the taxpayer's tax return. The bill provides for  
32 limited carryforward but does not provide for carryback.  
33 Generally, the taxpayer cannot transfer the tax credit. There  
34 is one exception: the tax credit can pass to the taxpayer's  
35 estate or trust after death.

1 The taxpayer must be a person who may acquire or otherwise  
2 obtain or lease agricultural land in the state under Code  
3 chapter 9H or 9I (restricting foreign ownership of  
4 agricultural land). In addition, the taxpayer cannot acquire  
5 or otherwise obtain or lease agricultural land exclusively  
6 because of an exception provided in one of those Code chapters  
7 (e.g., an encumbrance taken for purposes of security). The  
8 person also cannot hold land based on an exception in other  
9 Code provisions, including Code chapter 10 (corporate  
10 networking entities), 10C (life science enterprises), 10D  
11 (qualified enterprises) and 501 (closed cooperatives) as well  
12 as Code section 15E.207 (an Iowa agricultural industry finance  
13 corporation). The bill provides a number of restrictions upon  
14 the authority in approving applications and issuing  
15 certificates.

16 The taxpayer cannot be at fault for terminating a prior  
17 agreement; the taxpayer cannot be involved in legal  
18 proceedings regarding environmental violations; the beginning  
19 farmer cannot be provided more agricultural assets than what  
20 the beginning farmer can be expected to adequately manage; and  
21 the agricultural assets cannot be leased or rented at a rate  
22 substantially different from similar market arrangements. The  
23 bill provides that an agreement may be terminated but also  
24 provides that if the termination is the fault of the owner,  
25 any tax credits must be repaid and no further tax credit  
26 certificates can be issued to the taxpayer.

27 The bill takes effect on January 1, 2007, and applies to  
28 tax years beginning on or after that date.

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**EIGHTY-FIRST GENERAL ASSEMBLY  
2006 REGULAR SESSION  
DAILY  
HOUSE CLIP SHEET**

FEBRUARY 21, 2006  
**Fiscal Services Division  
Legislative Services Agency  
Fiscal Note**

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HF 2072 - Farm Land Asset Tax Credit (LSB 5064 YH)  
Analyst: Jeff Robinson (Phone: (515) 281-4614) ([jeff.robinson@legis.state.ia.us](mailto:jeff.robinson@legis.state.ia.us))  
Fiscal Note Version - New

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**Description**

House File 2072 provides an Iowa income tax credit for owners of agricultural assets who help beginning farmers to acquire agricultural property by lease or rental arrangements. The Iowa Agricultural Development Authority will administer the Program and tax credits. The tax credit is available for tax years beginning on or after January 1, 2007.

**Assumptions**

1. The average tax credit will equal \$1,700 per year per arrangement.
2. Due to tax liability constraints, only 85.0% of tax credits earned will be redeemed.
3. There will be 100 arrangements in 2006, and that number will grow to 350 by 2012. After that, new arrangements each year will equal the number of arrangements expiring.

**Fiscal Impact**

The tax credits in HF 2072 are projected to reduce net General Fund revenue by:

- FY 2007: \$ 70,000
- FY 2008: \$180,000
- FY 2009: \$250,000
- FY 2010: \$330,000
- FY 2011: \$400,000
- FY 2012: \$470,000
- FY 2013: \$510,000

In future fiscal years, the impact should be similar to FY 2013. The tax credit will also have a minor negative impact on local option income surtax receipts for schools.

Administrative costs of the Program are estimated to be \$32,000 per year. The Iowa Agricultural Development Authority is financed through fees and other revenue associated with various Authority programs.

**Source**

Iowa Agricultural Development Authority

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/s/ Holly M. Lyons

February 20, 2006