

MAR 29 2006
WAYS & MEANS CALENDAR

HOUSE FILE 2778
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HF 2072)

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

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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HF 2778

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 with
27 a beginning farmer as 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 including any improvements and may provide for the rental of
4 agricultural 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 shall be for at least two years, but not
10 more than five years. The agreement or that part of the
11 agreement providing for the lease may be renewed by the
12 beginning farmer for a term of at least two years, but not
13 more than five years. An agreement does not include a lease
14 or the rental of equipment intended as a security.

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

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

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

25 6. In order to qualify as a beginning farmer, a person
26 must be eligible to receive financial assistance under section
27 175.12.

28 7. A tax credit in excess of the taxpayer's liability for
29 the tax year may be credited to the tax liability for the
30 following five years or until depleted, whichever is earlier.
31 A tax credit shall not be carried back to a tax year prior to
32 the tax year in which the taxpayer redeems the tax credit. A
33 tax credit shall not be transferable to any other person other
34 than the taxpayer's estate or trust upon the taxpayer's death.

35 8. A taxpayer shall not claim a tax credit under this

1 section unless a tax credit certificate issued by the
2 authority is attached to the taxpayer's tax return for the tax
3 year for which the tax credit is claimed. The authority must
4 review and approve an application for a tax credit as provided
5 by rules adopted by the authority. The application must
6 include a copy of the agricultural assets transfer agreement.
7 The authority may approve an application and issue a tax
8 credit certificate to a taxpayer who has previously been
9 allowed a tax credit under this section. The authority may
10 require that the parties to an agricultural assets transfer
11 agreement provide additional information as determined
12 relevant by the authority. The authority shall review an
13 application for a tax credit which includes the renewal of an
14 agricultural assets transfer agreement to determine that the
15 parties to the renewed agreement meet the same qualifications
16 as required for an original application. However, the
17 authority shall not approve an application or issue a
18 certificate to a taxpayer if any of the following applies:

19 a. The taxpayer is at fault for terminating a prior
20 agricultural assets transfer agreement as determined by the
21 authority.

22 b. The taxpayer is any of the following:

23 (1) A party to a pending administrative or judicial
24 action, including a contested case proceeding under chapter
25 17A, relating to an alleged violation involving an animal
26 feeding operation as regulated by the department of natural
27 resources, regardless of whether the pending action is brought
28 by the department or the attorney general.

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

32 c. The beginning farmer is responsible for managing or
33 maintaining agricultural land and other agricultural assets
34 that are greater than necessary to adequately support a
35 beginning farmer as determined by the authority according to

1 rules which shall be adopted by the authority.

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

6 9. A taxpayer or the beginning farmer may terminate an
7 agricultural assets transfer agreement as provided in the
8 agreement or by law. The taxpayer must immediately notify the
9 authority of the termination.

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

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

26 Sec. 3. NEW SECTION. 422.11M AGRICULTURAL ASSETS
27 TRANSFERRED TO BEGINNING FARMERS.

28 The taxes imposed under this division, less the credits
29 allowed under sections 422.12 and 422.12B, shall be reduced by
30 an agricultural assets transfer tax credit as allowed under
31 section 175.37.

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

34 NEW SUBSECTION. 20. The taxes imposed under this division
35 shall be reduced by an agricultural assets transfer tax credit

1 because of an exception provided in one of those Code chapters
2 (e.g., an encumbrance taken for purposes of security). The
3 person also cannot hold land based on an exception in other
4 Code provisions, including Code chapter 10 (corporate
5 networking entities), 10C (life science enterprises), 10D
6 (qualified enterprises) and 501 (closed cooperatives) as well
7 as Code section 15E.207 (an Iowa agricultural industry finance
8 corporation). The bill provides a number of restrictions upon
9 the authority in approving applications and issuing
10 certificates.

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

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

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2778 - Farm Land Asset Tax Credit (LSB 5064 HV)

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Fiscal Note Version - New

Description

House File 2778 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 2778 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

/s/ Holly M. Lyons

March 30, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
