

FEB 23 2005  
WAYS AND MEANS

HOUSE FILE 387  
BY COMMITTEE ON AGRICULTURE

(SUCCESSOR TO HF 137)

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:

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HF 387

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 -- TAX  
7 CREDIT.

8 1. A tax credit is allowed against the taxes imposed in  
9 chapter 422, division II or III, to facilitate the transfer of  
10 agricultural assets from a taxpayer to a beginning farmer.

11 2. a. In order to qualify for the tax credit, the  
12 taxpayer must meet qualifications established by rules adopted  
13 by the authority. At a minimum, the taxpayer must be a person  
14 who may acquire or otherwise obtain or lease agricultural land  
15 in this state pursuant to chapter 9H or 9I. However, the  
16 taxpayer must not be a person who may acquire or otherwise  
17 obtain or lease agricultural land exclusively because of an  
18 exception provided in one of those chapters or in a provision  
19 of another chapter of this Code including but not limited to  
20 chapter 10 or 10C, or sections 15.331B or 15E.207.

21 b. In order to qualify as a beginning farmer, a person  
22 must be eligible to receive financial assistance under section  
23 175.12.

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

31 4. The tax credit is allowed only for agricultural assets  
32 that are subject to a lease or rental agreement. The  
33 agreement may be made on a cash basis or on a commodity share  
34 basis which includes a share of the crops or livestock  
35 produced on the agricultural land. The agreement must be in

1 writing. The lease must be for a term of at least two years.  
2 The lease may be renewed for a term of at least two years.  
3 The taxpayer may claim the tax credit under the renewal lease  
4 in the same manner as the original lease. A lease does not  
5 include a lease intended as a security.

6 5. The tax credit shall be calculated based on the gross  
7 amount paid to the taxpayer under the lease or rental  
8 agreement.

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

12 b. The tax credit shall equal fifteen percent of the  
13 amount paid to the taxpayer from crops or animals sold under  
14 an agreement in which the payment is exclusively made from the  
15 sale of crops or animals.

16 The taxpayer may claim the tax credit until the beginning  
17 farmer is no longer eligible to receive financial assistance  
18 under section 175.12. A tax credit in excess of the  
19 taxpayer's liability for the tax year may be credited to the  
20 tax liability for the following five years or until depleted,  
21 whichever is earlier. A tax credit shall not be carried back  
22 to a tax year prior to the tax year in which the taxpayer  
23 redeems the tax credit. A tax credit shall not be  
24 transferable to any other person other than the taxpayer's  
25 estate or trust upon the taxpayer's death.

26 6. A taxpayer shall not claim a tax credit under this  
27 section unless a tax credit certificate issued by the  
28 authority is attached to the taxpayer's tax return for the tax  
29 year for which the tax credit is claimed. The authority must  
30 review and approve an application for a tax credit as provided  
31 by rules adopted by the authority. The application must  
32 include a copy of the lease or rental agreement. The  
33 authority may approve an application and issue a tax credit  
34 certificate to a taxpayer who has previously been allowed a  
35 tax credit under this section. However, the authority shall

1 not approve an application or issue a certificate to a  
2 taxpayer if any of the following applies:

3 a. The taxpayer is at fault for terminating a prior lease  
4 or rental agreement subject to this section as determined by  
5 the authority.

6 b. The taxpayer is any of the following:

7 (1) A party to a pending administrative or judicial  
8 action, including a contested case proceeding under chapter  
9 17A, relating to an alleged violation involving an animal  
10 feeding operation as regulated by the department of natural  
11 resources, regardless of whether the pending action is brought  
12 by the department or the attorney general.

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

16 c. The beginning farmer is responsible for managing or  
17 maintaining agricultural land and other agricultural assets  
18 that are greater than necessary in order to adequately support  
19 a beginning farmer as determined by the authority according to  
20 rules which shall be adopted by the authority.

21 d. The agricultural assets are being leased or rented at a  
22 rate which is substantially higher or lower than the market  
23 rate for similar agricultural assets leased or rented within  
24 the same community, as determined by the authority.

25 7. The authority shall review each existing lease or  
26 rental agreement which is part of an application approved by  
27 the authority on a quarterly basis. The authority may require  
28 that the taxpayer and the beginning farmer provide additional  
29 information as determined relevant by the authority.

30 8. A taxpayer or the beginning farmer may terminate a  
31 lease or rental agreement as provided in the agreement or by  
32 law. The taxpayer must immediately notify the authority of  
33 the termination.

34 a. If the authority determines that the taxpayer is not at  
35 fault for the termination, the authority shall not issue a tax

1 certificate to the taxpayer for a subsequent tax year based on  
2 the approved application. Any prior tax credit is allowed as  
3 provided in this section. The taxpayer may apply for and be  
4 issued another tax credit certificate for the same  
5 agricultural assets as provided in this section for any  
6 remaining tax years for which a certificate was not issued.

7 b. If the authority determines that the taxpayer is at  
8 fault for the termination, any prior tax credit allowed under  
9 this section is disallowed. The tax credit shall be  
10 recaptured and the amount of the tax credit shall be  
11 immediately due and payable to the department of revenue. If  
12 a taxpayer does not immediately notify the authority of the  
13 termination, the taxpayer shall be conclusively deemed at  
14 fault for the termination.

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

18 EXPLANATION

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

31 The bill provides a tax credit for owners of agricultural  
32 assets (agricultural land, depreciable agricultural property,  
33 crops, or livestock) who help beginning farmers to acquire  
34 agricultural assets by lease or rental arrangements. The tax  
35 credit may be taken against individual or corporate income.

1 An owner (referred to as the taxpayer) claims the tax credit  
2 after receiving a certificate issued by the authority which is  
3 attached to the taxpayer's tax return. The bill provides for  
4 limited carry forward but does not provide for carry back.  
5 Generally the taxpayer cannot transfer the tax credit. There  
6 is one exception: the tax credit can pass to the taxpayer's  
7 estate.

8 The taxpayer must be a person who may acquire or otherwise  
9 obtain or lease agricultural land in the state under Code  
10 chapter 9H or 9I (restricting foreign ownership of  
11 agricultural land). In addition, the taxpayer cannot acquire  
12 or otherwise obtain or lease agricultural land exclusively  
13 because of an exception provided in one of those Code chapters  
14 (e.g., an encumbrance taken for purposes of security). The  
15 person also cannot hold land based on an exception in other  
16 Code provisions, including Code chapter 10 (corporate  
17 networking entities), 10C (life science enterprises), Code  
18 section 15.331B (businesses in economic development areas), or  
19 15E.207 (an Iowa agricultural industry finance corporation).

20 The bill provides a number of restrictions upon the  
21 authority in approving applications and issuing certificates.  
22 The taxpayer cannot be at fault for terminating a prior lease;  
23 the taxpayer cannot be involved in legal proceedings regarding  
24 environmental violations; the beginning farmer cannot be  
25 provided more agricultural assets than what the beginning  
26 farmer can be expected to adequately manage; and the  
27 agricultural assets cannot be leased or rented at a rate  
28 substantially different from similar market arrangements.

29 The bill provides that an agreement may be terminated but  
30 also provides that if the termination is the fault of the  
31 owner, any tax credits must be repaid and no further tax  
32 credit certificates can be issued to the taxpayer.

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

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**Fiscal Services Division**  
**Legislative Services Agency**  
**Fiscal Note**

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HF 387 - Farm Land Sales to Beginners (LSB 1803 HV)

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Fiscal Note Version - New

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**Description**

House File 387 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, 2006.

**Assumptions**

1. The average tax credit will equal \$1,700 per year per arrangement.
2. Due to tax liability constraints, only 82.0% of tax credits earned will be redeemed.
3. There will be 100 arrangements in 2005, and that number will grow to 350 by 2010. After that, new arrangements each year will equal the number of arrangements expiring.

**Fiscal Impact**

The tax credits in HF 387 are projected to reduce net General Fund revenue by:

- FY 2006: \$ 70,000
- FY 2007: \$170,000
- FY 2008: \$240,000
- FY 2009: \$310,000
- FY 2010: \$380,000
- FY 2011: \$450,000
- FY 2012: \$490,000

In future fiscal years, the impact should be similar to FY 2012.

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

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March 7, 2005

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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.

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