

Senate Study Bill 3125

SENATE FILE _____
BY (PROPOSED COMMITTEE ON WAYS
AND MEANS BILL BY
CO=CHAIRPERSON ZIEMAN)

Passed Senate, Date _____ Passed House, 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 tax credits and tax
3 exemptions, and including effective and retroactive and other
4 applicability dates.
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
6 TLSB 5135SK 81
7 da/cf/24

PAG LIN

1 1 Section 1. Section 175.2, Code 2005, is amended by adding
2 the following new subsection:
1 3 NEW SUBSECTION. 0A. "Agricultural assets" means
1 4 agricultural land, depreciable agricultural property, crops,
1 5 or livestock.
1 6 Sec. 2. NEW SECTION. 175.37 AGRICULTURAL ASSETS TRANSFER
1 7 TAX CREDIT.
1 8 1. An agricultural assets transfer tax credit is allowed
1 9 under this section. The tax credit is allowed against the
1 10 taxes imposed in chapter 422, division II, as provided in
1 11 section 422.11M, and in chapter 422, division III, as provided
1 12 in section 422.33, to facilitate the transfer of agricultural
1 13 assets from a taxpayer to a beginning farmer.
1 14 2. In order to qualify for the tax credit, the taxpayer
1 15 must meet qualifications established by rules adopted by the
1 16 authority. At a minimum, the taxpayer must be a person who
1 17 may acquire or otherwise obtain or lease agricultural land in
1 18 this state pursuant to chapter 9H or 9I. However, the
1 19 taxpayer must not be a person who may acquire or otherwise
1 20 obtain or lease agricultural land exclusively because of an
1 21 exception provided in one of those chapters or in a provision
1 22 of another chapter of this Code including but not limited to
1 23 chapter 10, 10C, 10D, or 501, or section 15E.207.
1 24 3. An individual may claim a tax credit under this section
1 25 of a partnership, limited liability company, S corporation,
1 26 estate, or trust electing to have income taxed directly to the
1 27 individual. The amount claimed by the individual shall be
1 28 based upon the pro rata share of the individual's earnings
1 29 from the partnership, limited liability company, S
1 30 corporation, estate, or trust.
1 31 4. The tax credit is allowed only for agricultural assets
1 32 that are subject to a lease or rental agreement. The
1 33 agreement may be made on a cash basis or on a commodity share
1 34 basis which includes a share of the crops or livestock
1 35 produced on the agricultural land. The agreement must be in
2 1 writing. The lease must be for a term of at least two years.
2 2 The lease may be renewed for a term of at least two years.
2 3 The taxpayer may claim the tax credit under the renewal lease
2 4 in the same manner as the original lease. A lease does not
2 5 include a lease intended as a security.
2 6 5. The tax credit shall be calculated based on the gross
2 7 amount paid to the taxpayer under the lease or rental
2 8 agreement.
2 9 a. Except as provided in paragraph "b", the tax credit
2 10 shall equal five percent of the amount paid to the taxpayer
2 11 under the agreement.
2 12 b. The tax credit shall equal fifteen percent of the
2 13 amount paid to the taxpayer from crops or animals sold under
2 14 an agreement in which the payment is exclusively made from the

2 15 sale of crops or animals.

2 16 6. a. In order to qualify as a beginning farmer, a person
2 17 must be eligible to receive financial assistance under section
2 18 175.12. The taxpayer may claim the tax credit on the gross
2 19 amount paid to the taxpayer as provided in this section until
2 20 the beginning farmer is no longer eligible to receive
2 21 financial assistance under section 175.12.

2 22 b. A tax credit in excess of the taxpayer's liability for
2 23 the tax year may be credited to the tax liability for the
2 24 following five years or until depleted, whichever is earlier.
2 25 A tax credit shall not be carried back to a tax year prior to
2 26 the tax year in which the taxpayer redeems the tax credit. A
2 27 tax credit shall not be transferable to any other person other
2 28 than the taxpayer's estate or trust upon the taxpayer's death.

2 29 7. A taxpayer shall not claim a tax credit under this
2 30 section unless a tax credit certificate issued by the
2 31 authority is attached to the taxpayer's tax return for the tax
2 32 year for which the tax credit is claimed. The authority must
2 33 review and approve an application for a tax credit as provided
2 34 by rules adopted by the authority. The application must
2 35 include a copy of the lease or rental agreement. The
3 1 authority may approve an application and issue a tax credit
3 2 certificate to a taxpayer who has previously been allowed a
3 3 tax credit under this section. However, the authority shall
3 4 not approve an application or issue a certificate to a
3 5 taxpayer if any of the following applies:

3 6 a. The taxpayer is at fault for terminating a prior lease
3 7 or rental agreement subject to this section as determined by
3 8 the authority.

3 9 b. The taxpayer is any of the following:

3 10 (1) A party to a pending administrative or judicial
3 11 action, including a contested case proceeding under chapter
3 12 17A, relating to an alleged violation involving an animal
3 13 feeding operation as regulated by the department of natural
3 14 resources, regardless of whether the pending action is brought
3 15 by the department or the attorney general.

3 16 (2) Classified as a habitual violator for a violation of
3 17 state law involving an animal feeding operation as regulated
3 18 by the department of natural resources.

3 19 c. The beginning farmer is responsible for managing or
3 20 maintaining agricultural land and other agricultural assets
3 21 that are greater than necessary to adequately support a
3 22 beginning farmer as determined by the authority according to
3 23 rules which shall be adopted by the authority.

3 24 d. The agricultural assets are being leased or rented at a
3 25 rate which is substantially higher or lower than the market
3 26 rate for similar agricultural assets leased or rented within
3 27 the same community, as determined by the authority.

3 28 8. The authority shall review each existing lease or
3 29 rental agreement which is part of an application approved by
3 30 the authority on a quarterly basis. The authority may require
3 31 that the taxpayer and the beginning farmer provide additional
3 32 information as determined relevant by the authority.

3 33 9. A taxpayer or the beginning farmer may terminate a
3 34 lease or rental agreement as provided in the agreement or by
3 35 law. The taxpayer must immediately notify the authority of
4 1 the termination.

4 2 a. If the authority determines that the taxpayer is not at
4 3 fault for the termination, the authority shall not issue a tax
4 4 certificate to the taxpayer for a subsequent tax year based on
4 5 the approved application. Any prior tax credit is allowed as
4 6 provided in this section. The taxpayer may apply for and be
4 7 issued another tax credit certificate for the same
4 8 agricultural assets as provided in this section for any
4 9 remaining tax years for which a certificate was not issued.

4 10 b. If the authority determines that the taxpayer is at
4 11 fault for the termination, any prior tax credit allowed under
4 12 this section is disallowed. The tax credit shall be
4 13 recaptured and the amount of the tax credit shall be
4 14 immediately due and payable to the department of revenue. If
4 15 a taxpayer does not immediately notify the authority of the
4 16 termination, the taxpayer shall be conclusively deemed at
4 17 fault for the termination.

4 18 Sec. 3. NEW SECTION. 422.11M AGRICULTURAL ASSETS
4 19 TRANSFERRED TO BEGINNING FARMERS.

4 20 The taxes imposed under this division, less the credits
4 21 allowed under sections 422.12 and 422.12B, shall be reduced by
4 22 an agricultural assets transfer tax credit as allowed under
4 23 section 175.37.

4 24 Sec. 4. Section 422.33, Code Supplement 2005, is amended
4 25 by adding the following new subsection:

4 26 NEW SUBSECTION. 20. The taxes imposed under this division
4 27 shall be reduced by an agricultural assets transfer tax credit
4 28 as allowed under section 175.37.

4 29 Sec. 5. Section 423.3, subsection 11, unnumbered paragraph
4 30 1, Code Supplement 2005, is amended to read as follows:

4 31 The sales price exclusive of services of farm machinery and
4 32 equipment, including auxiliary attachments which improve the
4 33 performance, safety, operation, or efficiency of the machinery
4 34 and equipment, and including auger systems, curtains and
4 35 curtain systems, drip systems, fan and fan systems, shutters,
5 1 inlets and shutter or inlet systems, and refrigerators, and

5 2 replacement parts, if all of the following conditions are met:

5 3 Sec. 6. REFUNDS. Refunds of taxes, interest, or penalties
5 4 which arise from claims resulting from the amendment of
5 5 section 423.3, subsection 11, in this Act, for the exemption
5 6 of sales of auger systems, curtains and curtain systems, drip
5 7 systems, fan and fan systems, shutters, inlets and shutter or
5 8 inlet systems, and refrigerators occurring between January 1,
5 9 1992, and the effective date of this section of this Act,
5 10 shall be limited to twenty-five thousand dollars in the
5 11 aggregate and shall not be allowed unless refund claims are
5 12 filed prior to October 1, 2006, notwithstanding any other
5 13 provision of law. If the amount of claims totals more than
5 14 twenty-five thousand dollars in the aggregate, the department
5 15 of revenue shall prorate the twenty-five thousand dollars
5 16 among all claimants in relation to the amounts of the
5 17 claimants' valid claims. Claimants shall not be entitled to
5 18 interest on any refunds.

5 19 Sec. 7. EFFECTIVE DATES AND RETROACTIVE APPLICABILITY
5 20 PROVISIONS.

5 21 1. Except as provided in subsection 2, this Act takes
5 22 effect January 1, 2007, and is applicable to tax years
5 23 beginning on or after that date.

5 24 2. The section of this Act amending section 423.3 and the
5 25 section of this Act providing refunds resulting from the
5 26 amendment of section 423.3, being deemed of immediate
5 27 importance, take effect upon enactment and apply retroactively
5 28 to January 1, 1992.

5 29 EXPLANATION

5 30 This bill provides tax incentives associated with
5 31 agricultural production. The bill establishes a tax credit to
5 32 assist beginning farmers and provides a sales tax exemption on
5 33 certain farm machinery and equipment.

5 34 BEGINNING FARMERS == AGRICULTURAL ASSETS TRANSFER TAX
5 35 CREDIT. The bill amends provisions in Code chapter 175, which
6 1 establishes the agricultural development authority
6 2 (authority), by providing a tax credit for an owner of
6 3 agricultural assets including agricultural land, depreciable
6 4 agricultural property, crops, or livestock, who transfers
6 5 those agricultural assets to a beginning farmer by lease or
6 6 rental agreement.

6 7 The authority is an instrumentality housed in the office of
6 8 treasurer of state that is responsible for administering a
6 9 number of programs to assist agricultural producers, including
6 10 the beginning farmer program. A beginning farmer is an
6 11 individual, partnership, family farm corporation, or family
6 12 farm limited liability company as provided under Code chapter
6 13 9H (Iowa's corporate farming law), with a low or moderate net
6 14 worth who engages in farming or wishes to engage in farming.

6 15 The bill provides that the amount of the tax credit equals
6 16 5 percent of the amount paid to the owner under the agreement.
6 17 However, if the agreement is based on a commodity share
6 18 arrangement for either crops or livestock, the tax credit may
6 19 equal 15 percent of the amount paid to the owner from the sale
6 20 of the crops or animals.

6 21 The bill places a number of restrictions upon the authority
6 22 in approving applications and issuing certificates. The owner
6 23 must be a person who may acquire or otherwise obtain or lease
6 24 agricultural land in the state under Code chapter 9H or 9I
6 25 (restricting foreign ownership of agricultural land). In
6 26 addition, the owner cannot acquire or otherwise obtain or
6 27 lease agricultural land exclusively because of an exception
6 28 provided in one of those Code chapters, e.g., an encumbrance
6 29 taken for purposes of security. A person also cannot hold
6 30 land based on an exception in other Code provisions, including
6 31 Code chapter 10 (corporate networking entities), Code chapter
6 32 10C (life science enterprises), Code chapter 10D (qualified
6 33 enterprises), and Code chapter 501 (closed cooperatives), as
6 34 well as Code section 15E.207 (an Iowa agricultural industry
6 35 finance corporation). The owner cannot be at fault for

7 1 terminating a prior lease, the owner cannot have been involved

7 2 in legal proceedings regarding an environmental violation, the
7 3 beginning farmer could not have been provided more
7 4 agricultural assets than what the beginning farmer could have
7 5 been expected to adequately manage, and the agricultural
7 6 assets cannot be leased or rented at a rate substantially
7 7 different from similar market arrangements.

7 8 This part of the bill takes effect January 1, 2007, and is
7 9 applicable to tax years beginning on or after that date.

7 10 SALES TAX EXEMPTION == FARM MACHINERY AND EQUIPMENT. The
7 11 bill also amends Code section 423.3, which provides exemptions
7 12 from the state's sales tax, including farm machinery and
7 13 equipment associated with crop production, animal agriculture,
7 14 or horticulture. The bill extends the type of farm machinery
7 15 and equipment eligible for the exemption by including auger
7 16 systems, fan systems, and refrigerators.

7 17 This part of the bill takes effect upon enactment and
7 18 applies retroactively to January 1, 1992. It limits the
7 19 amount that may be refunded to a person who paid the sales tax
7 20 on and after that date to \$25,000.

7 21 LSB 5135SK 81

7 22 da:rj/cf/24