

Senate Study Bill 3129 - Introduced

SENATE/HOUSE FILE _____
BY (PROPOSED GOVERNOR BILL)

A BILL FOR

1 An Act providing for the beginning farmer tax credit program
2 administered by the Iowa finance authority and department
3 of revenue, providing for fees, and including effective date
4 provisions.

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

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1 Section 1. Section 16.77, subsections 2 and 4, Code 2026, are
2 amended to read as follows:

3 2. "*Agricultural assets lease agreement*" or "*lease agreement*"
4 means ~~an~~ *a type of agricultural assets transfer agreement* for
5 the transfer of agricultural assets from an eligible taxpayer
6 to a qualified beginning farmer *by lease* as provided in section
7 16.79A.

8 4. "*Eligible taxpayer*" or "*taxpayer*" means a taxpayer who may
9 participate in the beginning farmer tax credit program, including
10 by meeting all the criteria as provided in section 16.79.

11 Sec. 2. Section 16.77, Code 2026, is amended by adding the
12 following new subsections:

13 NEW SUBSECTION. 2A. a. "*Agricultural assets sale agreement*"
14 or "*sale agreement*" means a type of agricultural assets transfer
15 agreement for the transfer of agricultural assets from an
16 eligible taxpayer to a qualified beginning farmer by sale as
17 provided in section 16.79A.

18 b. As used in paragraph "a", "*agricultural assets sale*
19 *agreement*" only includes a transfer by any of the following:

20 (1) A cash sale contract in which the taxpayer receives a
21 fixed cash payment in full at one time.

22 (2) An installment contract in which the taxpayer receives
23 scheduled payments over a period of years, including under a
24 fixed cash payment arrangement or under a risk distribution
25 payment arrangement.

26 NEW SUBSECTION. 2B. "*Agricultural assets transfer agreement*"
27 or "*transfer agreement*" means an agricultural assets lease
28 agreement or agricultural assets sale agreement.

29 Sec. 3. Section 16.78, Code 2026, is amended by adding the
30 following new subsection:

31 NEW SUBSECTION. 1A. Under the program, a beginning farmer
32 tax credit is allowed for agricultural assets that are subject
33 to an agricultural assets transfer agreement entered into by an
34 eligible taxpayer and a qualifying beginning farmer as provided
35 in this subpart.

1 Sec. 4. Section 16.79, subsection 1, Code 2026, is amended to
2 read as follows:

3 1. A taxpayer is eligible to participate in the beginning
4 farmer tax credit program if the taxpayer meets all of the
5 following requirements:

6 a. The taxpayer is a person who may acquire or otherwise
7 obtain ~~or lease~~ agricultural land in this state, including
8 by lease or sale, pursuant to chapter 9H or 9I. However, the
9 taxpayer must not be a person who may acquire or otherwise obtain
10 ~~or lease~~ agricultural land exclusively because of an exception
11 provided in one of those chapters or in a provision of another
12 chapter of this Code including but not limited to chapter 10,
13 10D, or 501, or section 15E.207.

14 b. The taxpayer has entered into an agricultural assets
15 transfer agreement that includes any of the following:

16 (1) An agricultural assets lease agreement with a qualified
17 beginning farmer to lease agricultural land assets as provided in
18 section 16.79A.

19 (2) An agricultural assets sale agreement with a qualified
20 beginning farmer to sell agricultural assets as provided in
21 section 16.79A.

22 c. The taxpayer has not been at fault for terminating a prior
23 agreement under the program or another agreement in which the
24 taxpayer was allowed to claim a tax credit under section 175.37
25 as it existed prior to January 1, 2015, or section 16.80 as it
26 existed prior to January 1, 2018.

27 d. If the transfer agreement includes the lease transfer of
28 a confinement feeding operation structure as defined in section
29 459.102, the taxpayer is not a party to a pending administrative
30 or judicial action, including a contested case proceeding under
31 chapter 17A, relating to an alleged violation involving an animal
32 feeding operation as regulated by the department of natural
33 resources, regardless of whether the pending action is brought by
34 the department or the attorney general.

35 e. The taxpayer is not classified as a habitual violator for

1 a violation of state law involving an animal feeding operation
2 as regulated by the department of natural resources under chapter
3 459.

4 ~~f. The taxpayer is not a partner of a partnership,
5 shareholder of a family farm corporation, or member of a
6 family farm limited liability company that is the lessee of
7 an agricultural asset that is part of an agricultural lease
8 agreement.~~

9 Sec. 5. Section 16.79, subsection 2, paragraph e, Code 2026,
10 is amended to read as follows:

11 e. Does not own more than a ten percent ownership interest
12 in an agricultural asset included in the agricultural assets
13 transfer agreement.

14 Sec. 6. Section 16.79, Code 2026, is amended by adding the
15 following new subsections:

16 NEW SUBSECTION. 3. Parties to an agricultural assets
17 transfer agreement who are related as family members may
18 participate in the program so long as the taxpayer is otherwise
19 eligible under subsection 1 and the beginning farmer is otherwise
20 qualified under subsection 2.

21 NEW SUBSECTION. 4. A taxpayer shall no longer participate in
22 the program subject to any of the following eligibility limits:

23 a. The taxpayer has participated in the program for more than
24 fifteen years.

25 b. (1) By participating in the program, the taxpayer has
26 received a total of all tax credits under all agricultural assets
27 transfer agreements in excess of two hundred fifty thousand
28 dollars.

29 (2) (a) Subparagraph (1) does not apply to a taxpayer whose
30 application to participate in the program was approved by the
31 authority pursuant to section 16.82A before the effective date of
32 this Act.

33 (b) This subparagraph is repealed on January 1, 2037.

34 NEW SUBSECTION. 5. An eligible taxpayer participating in
35 the beginning farmer tax credit program by entering into an

1 agricultural assets lease agreement may also elect to exclude
2 net income received by an eligible individual pursuant to a farm
3 tenancy agreement as allowed in section 422.7, subsection 14,
4 during the same tax year.

5 Sec. 7. Section 16.79A, Code 2026, is amended to read as
6 follows:

7 **16.79A Agricultural lease assets transfer agreement.**

8 1. a. A beginning farmer tax credit is allowed only for
9 agricultural assets that are subject to an agricultural lease
10 assets transfer agreement entered into by an eligible taxpayer
11 and a qualifying beginning farmer participating in the beginning
12 farmer tax credit program established pursuant to section 16.78.

13 b. The tax credit is allowed regardless of whether the
14 principal agricultural asset is soil, pasture, or a building or
15 other structure used in farming.

16 2. The agricultural assets transfer agreement must include
17 the ~~lease of~~ terms of the transfer of agricultural land located
18 in this state or agricultural improvements located in this state,
19 ~~and may provide for the rental of agricultural equipment as~~
20 ~~defined in section 322F.1.~~

21 3. a. The agricultural assets transfer agreement must
22 include provisions ~~which~~ that describe the consideration paid for
23 the ~~agreement~~ transfer in a manner that allows the authority to
24 calculate the value of the lease or sale in order to determine
25 the tax credit amount as provided in section ~~16.82~~ 16.82B,
26 16.82C, or 16.82D.

27 b. The agreement must be in writing.

28 c. The transfer agreement cannot be assigned and the
29 agricultural land subject to the transfer agreement cannot be
30 subleased.

31 4. In the case of an agricultural assets lease agreement, all
32 of the following apply:

33 e. a. The lease agreement must be for at least two years,
34 but not more than five years. The lease agreement may be renewed
35 any number of times by the eligible taxpayer and qualified

1 beginning farmer for a term of at least two years, but not
2 more than five years. ~~However, an eligible taxpayer shall not~~
3 ~~participate in the program for more than fifteen years.~~

4 ~~d.~~ b. The lease agreement shall not include a lease or
5 rental of equipment intended as a security.

6 ~~e.~~ ~~The agreement cannot be assigned and the agricultural land~~
7 ~~subject to the agreement shall not be subleased.~~

8 ~~f.~~ c. (1) The agricultural assets shall not be leased or
9 rented ~~at a rate~~ for a price that is substantially higher than
10 the market ~~rate~~ price for similar agricultural assets leased or
11 rented within the same community.

12 (2) As used in subparagraph (1), when referring to an
13 agricultural asset that is cropland, "*substantially higher*" means
14 not more than thirty percent above the average cash rent paid for
15 cropland rented in the same county according to the most recent
16 cash rent survey for cropland published by a unit of Iowa state
17 university of science and technology recognized by the authority.

18 5. a. In the case of agricultural assets transferred by an
19 agricultural assets sale agreement, the agricultural assets shall
20 not be sold at a price that is substantially higher than the
21 market price for similar agricultural assets sold within the same
22 community.

23 b. As used in paragraph "a", when referring to an
24 agricultural asset that is cropland, "substantially higher" means
25 not more than thirty percent above the average purchase price for
26 cropland paid in the same county according to the most recent
27 purchase price survey for cropland published by a unit of Iowa
28 state university of science and technology recognized by the
29 authority.

30 ~~4.~~ 6. a. The An agricultural assets lease agreement or
31 an agricultural assets sale agreement in the form of an
32 installment contract may be amended after the authority approves
33 an application and makes a tax credit award under section 16.82A
34 without changing the eligibility status of the taxpayer, except
35 as provided in paragraph "b".

1 b. ~~The underlying lease agreement or installment contract~~ for
2 agricultural land may only be amended without submitting a new
3 application if any of the following apply:

4 (1) (a) ~~The~~ For a lease agreement, its terms of the as
5 amended lease are more favorable to the qualified beginning
6 farmer, including but not limited to the rent payment being
7 reduced.

8 (b) For an installment contract, its terms as amended are
9 more favorable to the qualified beginning farmer, including but
10 not limited to the sales price being reduced.

11 (2) A party has changed their name.

12 (3) The owner of an agricultural asset is changed to the
13 owner's estate or trust upon the eligible taxpayer's death.

14 c. If an amendment to ~~an~~ a lease agreement or an installment
15 contract changes the total amount that will be paid to the
16 eligible taxpayer under the lease agreement or installment
17 contract, the eligible taxpayer shall notify the authority in a
18 manner and form prescribed by the authority within thirty days of
19 the date the amendment is executed by the parties.

20 (1) If the amendment will reduce the total amount paid to the
21 eligible taxpayer ~~under the agreement as determined in section~~
22 16.82B, 16.82C, or 16.82D, the authority shall recalculate and
23 reduce the eligible taxpayer's tax credit award under section
24 16.82A.

25 (2) If the amendment will increase the total amount paid
26 to the eligible taxpayer ~~under the agreement as determined~~
27 in section 16.82B, 16.82C, or 16.82D, the tax credit award
28 under section 16.82A shall not be increased unless the eligible
29 taxpayer submits an amended application to the authority in the
30 manner and form prescribed by the authority and that meets the
31 requirements of section 16.81. If the amended application is
32 approved under section 16.81, the authority may increase the
33 amount of the tax credit award. The increased amount of the tax
34 credit award shall be subject to the aggregate award limitation
35 in section 16.82A for the calendar year in which the increased

1 award is made.

2 (3) This paragraph "c" does not apply to an amendment to an
3 a lease agreement or installment contract that requires a new
4 application under paragraph "b" in order to be valid.

5 7. An application shall not be for longer than the period
6 that the applicant could be awarded a tax credit under the
7 applicable transfer agreement as determined in section 16.82B,
8 16.82C, or 16.82D, and subject to the limitations provided in
9 section 16.79.

10 ~~5.~~ 8. An eligible taxpayer or qualified beginning farmer
11 may terminate ~~an~~ a lease agreement or installment contract as
12 provided in the lease agreement or installment contract, or as
13 provided by law. The eligible taxpayer must notify the authority
14 of the termination within thirty days of the date of termination
15 in the manner and form prescribed by the authority.

16 Sec. 8. Section 16.81, subsection 1, Code 2026, is amended to
17 read as follows:

18 1. The deadline for submitting an application to the
19 authority to claim a beginning farmer tax credit ~~is August 1 of~~
20 ~~each year~~ shall be established by rule adopted by the authority
21 that allows the authority to make tax credit awards to eligible
22 taxpayers under section 16.82A. The department may establish
23 different deadlines for applications including different forms of
24 agricultural lease agreements and agricultural sale agreements as
25 provided in section 16.82B, 16.82C, or 16.82D. The application
26 ~~shall be for a period that is not longer than the term of the~~
27 ~~lease.~~

28 Sec. 9. Section 16.81, subsection 2, paragraph b, Code 2026,
29 is amended to read as follows:

30 b. The authority may establish different rates based on
31 separate categories of applications or agricultural lease assets
32 transfer agreements as determined relevant by the authority.

33 Sec. 10. Section 16.81, subsection 3, Code 2026, is amended
34 to read as follows:

35 3. The agricultural development board shall review and

1 recommend approval of an application for a tax credit as provided
2 by rules adopted by the authority. The application must include
3 a copy of the agricultural lease assets transfer agreement. The
4 authority may require that the parties to an a transfer agreement
5 provide additional information as determined relevant by the
6 authority.

7 Sec. 11. Section 16.82, subsections 3, 5, 6, and 7, Code
8 2026, are amended by striking the subsections.

9 Sec. 12. Section 16.82A, Code 2026, is amended to read as
10 follows:

11 **16.82A Beginning farmer tax credit awards — amount and**
12 **availability.**

13 1. Under the beginning farmer tax credit program, the
14 authority shall award a total tax credit award and the amount of
15 the tax credit award that will be issued by way of a tax credit
16 certificate in each future year under an agricultural assets
17 lease agreement or an agricultural assets sale agreement subject
18 to the limitations provided in this subpart.

19 ~~1.~~ 2. a. Upon approval of an application as provided in
20 section 16.81, the authority shall make a tax credit award to the
21 eligible taxpayer. The tax credit award shall equal the sum of
22 the tax credits calculated by the authority under as determined
23 in section ~~16.82~~ 16.82B, 16.82C, or 16.82D for all eligible years
24 under ~~the~~ an approved agricultural asset transfer agreement.

25 b. The authority shall notify the eligible taxpayer of the
26 tax credit award under the program. The notification shall
27 include the type and form of the transfer agreement, the total
28 tax credit award, the amount of the tax credit award that will
29 be issued by way of a tax credit certificate in each future year
30 under the approved agreement, and a statement that the eligible
31 taxpayer has no right to receive tax credit certificates and
32 claim tax credits under the program if all requirements of the
33 program and transfer agreement and the program are not satisfied.

34 c. If, after a tax credit award is made, the eligible
35 taxpayer or qualified beginning farmer no longer meets the

1 requirements of the program or transfer agreement ~~or the program~~,
2 the authority may revoke the tax credit award and may rescind any
3 tax credit certificate that has been issued.

4 ~~2.~~ 3. The amount of beginning farmer tax credits that may
5 be awarded by the authority in any one calendar year under the
6 ~~beginning farmer tax credit~~ program shall not in the aggregate
7 exceed a limit of twelve million dollars. Tax credits shall
8 be awarded by the authority not later than December 15 of each
9 calendar year after the agricultural development board reviews
10 applications as provided in section 16.81 and the authority
11 determines tax credit amounts for the approved applications as
12 provided calculated in section ~~16.82~~ 16.82B, 16.82C, or 16.82D,
13 aggregated for purposes of meeting the annual program award
14 limits.

15 ~~3.~~ 4. a. The authority shall issue a tax credit
16 ~~certificates~~ certificate on an annual basis to each eligible
17 ~~taxpayers~~ taxpayer who ~~have~~ has received a tax credit award. The
18 tax credit certificate shall contain the information required by
19 the department.

20 b. The aggregate amount of tax credit certificates issued to
21 an eligible taxpayer shall not exceed the eligible taxpayer's tax
22 credit award or the taxpayer's eligibility limit as provided in
23 section 16.79.

24 c. A tax credit certificate, unless rescinded by the
25 authority, shall be accepted by the department as payment for
26 taxes pursuant to chapter 422, subchapters II and III, subject to
27 any conditions or restrictions placed by the authority upon the
28 face of the tax credit certificate and subject to the limitations
29 of the program.

30 **Sec. 13. NEW SECTION. 16.82B Tax credit amount**
31 **determination — cash sale contract based on a fixed full**
32 **payment.**

33 1. a. The authority shall determine the amount of the
34 beginning farmer tax credit that may be awarded to an eligible
35 taxpayer pursuant to an agricultural assets transfer agreement in

1 the form of a cash sale contract in which the eligible taxpayer
2 receives a fixed cash payment in full.

3 b. The rate equals the fixed payment received by the eligible
4 taxpayer during the eligible year multiplied by a rate of five
5 percent.

6 2. The tax credit is subject to all of the following:

7 a. The amount of the tax credit shall not exceed one hundred
8 thousand dollars and is subject to the eligibility limits
9 provided in section 16.79.

10 b. Any amount of the tax credit in excess of the eligible
11 taxpayer's tax liability for the tax year is refundable. In
12 lieu of claiming a refund, the taxpayer may elect to have
13 the overpayment shown on the taxpayer's final, completed return
14 credited to the taxpayer's tax liability for the following tax
15 year.

16 c. The tax credit shall not be carried back to a tax year
17 prior to the tax year in which the taxpayer redeems the tax
18 credit.

19 d. The tax credit shall not be transferable to any other
20 person other than the eligible taxpayer's estate or trust upon
21 the taxpayer's death pursuant to rules adopted by the department.

22 3. The amount of the tax credit that may be awarded to an
23 eligible taxpayer shall be used by the authority to approve the
24 eligible taxpayer's total tax credit award by way of a tax credit
25 certificate issued in each eligible year under the approved lease
26 agreement or approved installment contract as provided in section
27 16.82A.

28 **Sec. 14. NEW SECTION. 16.82C Tax credit determination —**
29 **agricultural lease or installment contracts based on a fixed**
30 **scheduled payments arrangement.**

31 1. The authority shall determine the amount of the beginning
32 farmer tax credit that may be awarded to an eligible taxpayer
33 based on a fixed scheduled payments arrangement and pursuant
34 to an agricultural assets transfer agreement in the form of an
35 agricultural lease or installment contract in which the taxpayer

1 during the course of an eligible year receives one or more
2 scheduled fixed cash payments.

3 2. a. In the case of a lease agreement, except as provided
4 in paragraph "b", the tax credit equals the sum of the fixed
5 payments received by the taxpayer in an eligible year multiplied
6 by a rate of ten percent.

7 b. For a lease agreement, the tax credit equals the sum of
8 the scheduled fixed cash payments multiplied by a rate of twelve
9 percent, if either of the following applies:

10 (1) The lease agreement provides for the transfer of
11 agricultural land used to produce a crop, and the sum of the
12 cash payments received by the eligible taxpayer is less than
13 the average sum of cash payments received by other lessors under
14 comparable leases in the same county according to the most recent
15 cash rent survey for cropland published by a unit of Iowa state
16 university of science and technology recognized by the authority.

17 (2) The lease agreement is for a term of either four or five
18 years.

19 c. For a lease agreement, the amount of the tax credit
20 awarded to an eligible taxpayer in an eligible year shall not
21 exceed fifty thousand dollars and is subject to the eligibility
22 limits provided in section 16.79.

23 3. a. In the case of an installment contract, the tax
24 credit applies to the amount of the sales price attributable to
25 the loan's principle as described in the installment contract
26 according to an amortization schedule approved by the authority.

27 b. For an installment contract, the tax credit equals the
28 sum of the fixed cash payments received by the taxpayer in an
29 eligible year multiplied by a rate of five percent.

30 c. For an installment contract, the amount of the tax credit
31 awarded to an eligible taxpayer in an eligible year shall
32 not exceed one hundred thousand dollars and is subject to the
33 eligibility limits provided in section 16.79.

34 4. In the case of a lease agreement or installment contract,
35 as applicable, all of the following apply:

1 a. Any amount of the tax credit in excess of the eligible
2 taxpayer's tax liability for the tax year is refundable. In
3 lieu of claiming a refund, the taxpayer may elect to have
4 the overpayment shown on the taxpayer's final, completed return
5 credited to the tax liability for the following tax year.

6 b. The tax credit shall not be carried back to a tax year
7 prior to the tax year in which the taxpayer redeems the tax
8 credit.

9 c. The tax credit shall not be transferable to any other
10 person other than the eligible taxpayer's estate or trust upon
11 the taxpayer's death pursuant to rules adopted by the department.

12 5. In the case of a lease agreement or installment contract,
13 as applicable, approved by the authority as provided in section
14 16.82A, the amount of the tax credit that may be awarded to
15 an eligible taxpayer shall be used by the authority to approve
16 the total tax credit award by way of a tax credit certificate
17 issued in each eligible year under the approved lease agreement
18 or approved installment contract as provided in that section.

19 **Sec. 15. NEW SECTION. 16.82D Tax credit determination —**
20 **agricultural lease or installment contract based on a risk**
21 **distribution payments arrangement.**

22 1. The authority shall determine the amount of the beginning
23 farmer tax credit that may be awarded to an eligible taxpayer
24 based on a risk distribution payment arrangement and pursuant
25 to an agricultural assets transfer agreement in the form of an
26 agricultural assets lease agreement or installment contract in
27 which during the course of an eligible year the taxpayer receives
28 one or more scheduled payments.

29 2. In the case of an agricultural assets lease agreement or
30 an installment contract calculated on a commodity share basis in
31 which the eligible taxpayer receives as payment a percentage of
32 the commodity produced on the agricultural land subject to the
33 transfer, all of the following apply:

34 a. The amount of the tax credit equals the gross amount that
35 the eligible taxpayer would receive as a payment from the sale of

1 the taxpayer's share of the crop in each harvest year multiplied
2 by the rate determined under paragraph "b". The amount of the
3 tax credit shall be based on an equation established by rule
4 adopted by the authority which shall use data compiled by the
5 United States department of agriculture, which shall include all
6 of the following factors:

7 (1) The past ten-year average per bushel yield for the same
8 type of grain as produced on the transferred agricultural land
9 in the same county where the transferred agricultural land is
10 located excluding the years of highest and lowest per bushel
11 yields.

12 (2) The per bushel state price established for the same type
13 of grain harvested as described in subparagraph (1). Price
14 information shall be averaged from the past five years excluding
15 the years of the highest and lowest per bushel state price.

16 b. In determining the applicable rate of the sum of scheduled
17 payments under paragraph "a", the following shall apply:

18 (1) (a) For a lease agreement, except as provided in
19 subparagraph division (b), fifteen percent.

20 (b) For a lease agreement with a term of either four or five
21 years, seventeen percent.

22 (2) For an installment contract, five percent.

23 3. In the case of an agricultural assets lease agreement, or
24 an installment contract, calculated on a flexible basis, in which
25 the eligible taxpayer receives an amount attributable to a fixed
26 cash payment and a commodity share payment, and one or more of
27 the payments are subject to adjustment according to risk-sharing
28 factors, the amount of the tax credit equals the sum of the
29 following:

30 a. To the extent that a portion of the amount of the rent
31 payment or installment payment as applicable is calculated on the
32 basis of scheduled fixed cash payments as described in section
33 16.82C, that portion of the tax credit amount equals the same
34 percent of the fixed cash payment applied in the same manner as
35 provided in section 16.82C.

1 b. To the extent that a portion of the amount of the rent
2 payment or installment payment as applicable is calculated on a
3 commodity share basis as described in subsection 2, that portion
4 of the tax credit amount equals the same percent of the amount
5 that the eligible taxpayer would receive from the sale of the
6 eligible taxpayer's share of the commodity in the same manner as
7 provided in subsection 2.

8 c. (1) To the extent that the amount of the rent payment
9 or installment payment as applicable may be adjusted after
10 taking into account all risk-sharing factors provided in
11 the corresponding lease agreement or installment contract, as
12 applicable, that portion of the tax credit equals the same
13 percent of the highest adjusted amount that the eligible taxpayer
14 could receive in excess of the amounts calculated in paragraphs
15 "a" and "b" based on an equation adopted by rule by the
16 authority.

17 (2) As used in this paragraph, "*risk-sharing factor*" means an
18 occurrence or lack of occurrence that may affect the commodity's
19 production or profitability as provided in the agreement, and
20 which may include but is not limited to production costs, per
21 acre crop yield, gross revenue, or market price.

22 (3) The authority shall adopt rules establishing criteria for
23 commonly used risk-sharing factors and adjustment limits.

24 4. a. In the case of a lease agreement, the amount of the
25 tax credit awarded to an eligible taxpayer in an eligible year
26 shall not exceed fifty thousand dollars and is subject to the
27 eligibility limits provided in section 16.79.

28 b. In the case of an installment contract, the amount of the
29 tax credit awarded to an eligible taxpayer in an eligible year
30 shall not exceed one hundred thousand dollars and is subject to
31 the eligibility limits provided in section 16.79.

32 5. In the case of a lease agreement or installment contract,
33 as applicable, all of the following apply:

34 a. Any amount of the tax credit that may be awarded to
35 an eligible taxpayer for any year in excess of the eligible

1 taxpayer's tax liability for the tax year is refundable. In
2 lieu of claiming a refund, the taxpayer may elect to have
3 the overpayment shown on the taxpayer's final, completed return
4 credited to the tax liability for the following tax year.

5 b. The tax credit shall not be carried back to a tax year
6 prior to the tax year in which the taxpayer redeems the tax
7 credit.

8 c. The tax credit shall not be transferable to any other
9 person other than the eligible taxpayer's estate or trust upon
10 the taxpayer's death pursuant to rules adopted by the department.

11 6. In the case of a lease agreement or installment contract,
12 as applicable, approved by the authority as provided in section
13 16.82A, the amount of the tax credit that may be awarded to
14 an eligible taxpayer shall be used by the authority to approve
15 the total tax credit award by way of a tax credit certificate
16 issued in each eligible year under the approved lease agreement
17 or approved installment contract as provided in that section.

18 Sec. 16. Section 422.7, subsection 14, paragraph b, Code
19 2026, is amended to read as follows:

20 b. (1) An individual who elects to exclude income received
21 pursuant to a farm tenancy agreement under this subsection shall
22 not claim any of the following in the tax year in which the
23 election is made or in any succeeding year: the capital gain
24 exclusion under subsection 13.

25 ~~(1) The capital gain exclusion under subsection 13.~~

26 ~~(2) The beginning farmer tax credit under section 422.11E.~~

27 (2) An individual who elects to exclude income received
28 pursuant to a farm tenancy agreement under this subsection may
29 also claim the beginning farmer tax credit as allowed under
30 chapter 16, subchapter VIII, part 5, subpart B.

31 Sec. 17. RULEMAKING. The Iowa finance authority and the
32 department of revenue shall adopt rules necessary to administer
33 this Act as provided in section 16.78.

34 Sec. 18. EFFECTIVE DATE.

35 1. Except as provided in subsection 2, this Act takes effect

1 January 1, 2027.

2 2. The section of this Act that authorizes the Iowa finance
3 authority and the department of revenue to adopt rules takes
4 effect upon enactment.

5 EXPLANATION

6 The inclusion of this explanation does not constitute agreement with
7 the explanation's substance by the members of the general assembly.

8 BACKGROUND — GENERAL. This bill amends provisions in Code
9 chapter 16 administered by the Iowa finance authority (IFA),
10 which is a public instrumentality that acts to further a public
11 purpose of promoting the state's economy (Code section 16.1A).
12 The agricultural development division is created within the
13 IFA to provide assistance to beginning farmers who satisfy low
14 or moderate net worth requirements (Code sections 16.2A and
15 16.58). One such program is the beginning farmer tax credit
16 program (program) that facilitates the transfer of agricultural
17 assets between a lessor who is the owner of agricultural
18 assets (eligible taxpayer) to a lessee (qualifying beginning
19 farmer) participating in the program (Code section 16.82).
20 An agricultural asset means agricultural land, agricultural
21 improvements, depreciable agricultural property, crops, or
22 livestock (Code section 16.58).

23 BACKGROUND — APPLICATION AND LEASE AGREEMENT REQUIREMENTS.
24 An application to participate in the program must be submitted
25 to IFA by August 1 of each year. The application must include
26 an agricultural lease agreement (lease agreement) (Code section
27 16.81) entered into by the eligible taxpayer and qualified
28 beginning farmer. The eligible taxpayer is entitled to claim a
29 tax credit against the taxpayer's individual or corporate income
30 tax liability based on the form of rent arrangement and the
31 payment amount provided in the lease agreement (Code section
32 16.82). Under the lease agreement, the beginning farmer assumes
33 control over the leased agricultural assets for the term of the
34 lease agreement. An application fee schedule is established by
35 IFA rule based on costs necessary to administer the program.

1 The lease agreement cannot exceed five years, but may be renewed
2 (Code section 16.79A). An eligible taxpayer may participate in
3 the program for a maximum of 15 years.

4 BACKGROUND — FORMS OF AN AGRICULTURAL LEASE AGREEMENT. There
5 are two forms of a lease agreement, both based on payments
6 received by the eligible taxpayer (Code section 16.82). Under
7 the first form, the eligible taxpayer enters into a fixed
8 cash payment arrangement in which the taxpayer receives an
9 unadjusted rent payment. Under the second form, the eligible
10 taxpayer enters into a risk distribution arrangement in which
11 the taxpayer's rent payment is calculated according to the amount
12 that may be received from the sale of a commodity produced (e.g.,
13 harvested corn) on the leased agricultural land. There are two
14 types of a risk distribution arrangement in which the taxpayer
15 receives a rent payment, calculated on either a commodity share
16 basis or flexible basis. For a rent payment made on a commodity
17 share basis, the eligible taxpayer receives a percentage of the
18 commodity sold. For a rent payment made of a flexible basis,
19 the taxpayer may receive a portion of the rent payment based
20 on a fixed rent arrangement and the remaining portion based on
21 a commodity share arrangement. In addition, under a flexible
22 basis, that total rent payment amount may be adjusted according
23 to risk-sharing factors as provided in the lease agreement that
24 may affect production of the commodity according to rules adopted
25 by IFA.

26 BACKGROUND — TAX CREDIT. The rate of the tax credit depends
27 on the form of the lease agreement (Code section 16.82). For
28 a lease agreement under a fixed cash payment arrangement, the
29 rate equals 5 percent of the amount of the cash rent payment
30 received by the eligible taxpayer each year. For a lease
31 agreement calculated on a commodity share basis, the rate equals
32 15 percent of the amount that the eligible taxpayer receives from
33 the sale of the commodity each year. For a lease agreement
34 calculated on a flexible basis, the tax credit is the sum of
35 that portion of the rent payment attributable to a fixed cash

1 rent arrangement and that portion attributable to a commodity
2 share arrangement. In addition, for a lease calculated on a
3 flexible basis, the sum of one or both payments may be adjusted
4 based on risk-sharing factors as provided in the lease agreement
5 according to rules adopted by IFA. The tax credit is subject to
6 certain limitations. An eligible taxpayer cannot receive more
7 than \$50,000 in any one tax year. A tax credit in excess of
8 the eligible taxpayer's tax liability for the tax year is not
9 refundable but may be carried forward until depleted but for not
10 more than 10 years. The tax credit is not transferable.

11 BACKGROUND — TAX CREDIT RESTRICTION BASED ON INCOME EXCLUSION
12 APPLICABLE TO FARM TENANCIES. An otherwise eligible taxpayer
13 cannot participate in the program in any year that the taxpayer
14 could receive rent payments under a lease agreement as provided
15 in Code chapter 16 and also elect to subtract (exclude) rent
16 payments from the computation of net income as allowed for an
17 eligible individual under Code section 422.7(14). In order to be
18 eligible under the exclusion election, the taxpayer must either
19 be disabled or at least 55 years old. In addition, the taxpayer
20 must have materially participated in a farming business for 10
21 years in the aggregate, and held the leased property for 10
22 years.

23 BACKGROUND — TAX CREDIT AWARDS. Tax credit awards are
24 administered by IFA in cooperation with the department of revenue
25 (DOR) (Code section 16.82A). After August 1 of each year, IFA
26 is required to review and approve applications on a first-come,
27 first-served basis and issue tax credit certificates to approved
28 eligible taxpayers as proof of the award in the tax year for
29 which the tax credit is claimed. The program is subject to an
30 annual aggregate limitation of \$12 million. If an application
31 is approved, the eligible taxpayer may claim a tax credit each
32 tax year for the entire term of the lease agreement not to exceed
33 five years, so long as the aggregate amount of all awards does
34 not exceed a \$12 million aggregate limitation for that calendar
35 year.

1 BILL'S PROVISIONS — AGRICULTURAL ASSETS TRANSFER AGREEMENT.

2 The bill provides for an agricultural assets transfer agreement
3 (transfer agreement) that includes an agricultural assets lease
4 agreement (lease agreement) and a new agricultural assets sale
5 agreement (sale agreement) which includes two forms of sales
6 transactions: (1) a fixed cash sale contract in which the
7 taxpayer receives a cash payment in full at one time and (2)
8 an installment contract in which the taxpayer receives one or
9 more scheduled payments each eligible year. The installment
10 contract may be based on fixed cash payments or on the same risk
11 distribution payment arrangement as applies to a lease agreement
12 (a commodity share basis or flexible basis).

13 BILL'S PROVISIONS — APPLICATION AND PARTICIPATION. The bill
14 provides that an application is not required to be submitted by
15 August 1 so long as the authority may make tax credit awards
16 that do not exceed the \$12 million annual limitation. Parties
17 to a transfer agreement who are related as family members may
18 participate in the program so long as the taxpayer is otherwise
19 eligible and the beginning farmer is otherwise qualified. A
20 taxpayer participating in the program is subject to two limits.
21 Regardless of the type of transfer agreement, the taxpayer is
22 not eligible to participate in the program for more than 15
23 years. A new limit provides that the taxpayer is not eligible
24 to receive a total of more than \$250,000 in tax credits. The new
25 provision does not apply to taxpayers currently participating in
26 the program.

27 BILL'S PROVISIONS — TAX CREDIT (TRANSFER AGREEMENT BASED ON
28 CASH PAYMENTS). The bill applies tax credits to those transfer
29 agreements based on cash payments. For a sale contract based
30 on the taxpayer receiving the full payment at one time, the
31 tax credit equals 5 percent of the payment amount subject to
32 an annual limit of \$100,000. For a lease agreement, the rate
33 is increased from 5 to 10 percent of the fixed cash payments,
34 and for a sale contract in the form of an installment contract,
35 the rate is 5 percent of the fixed cash payments based on the

1 amount of the sales price attributable to principle. However,
2 in the case of a lease agreement the rate may be increased by 2
3 percent (to 12 percent) under certain circumstances. The first
4 circumstance occurs if land used to produce the cash payments
5 is less than the average cash payments under comparable leases
6 located in the same county. The second circumstance occurs
7 if the term of the lease agreement is either four or five
8 years. The \$50,000 annual limit continues to apply to the
9 lease agreement and the \$100,000 annual limit applies to the
10 installment contract. A tax credit for the lease agreement or
11 installment contract is refundable. Consequently, the taxpayer's
12 election to carry forward the tax credit is limited to the
13 following tax year.

14 BILL'S PROVISIONS — TAX CREDIT (TRANSFER AGREEMENTS BASED ON
15 RISK DISTRIBUTION PAYMENTS ARRANGEMENTS). The bill applies tax
16 credits to a transfer agreement which is either a lease agreement
17 or a sale agreement in the form of an installment contract, if
18 the transfer agreement is based on a risk distribution payments
19 arrangement, including a commodity share basis or flexible
20 basis. The same formula used to calculate the rate that applies
21 under current law to a lease agreement based on a commodity
22 share or risk-sharing arrangement now applies to both a payment
23 made under a lease agreement and installment contract. For a
24 lease agreement, the rate continues to be 15 percent, and for
25 an installment contract the rate is 5 percent, mirroring the
26 rate for fixed payment contracts either on a full one-time or
27 installment basis. The bill provides one exception for a lease
28 agreement. The rate is increased by two percentage points (to
29 17 percent) if a lease agreement has a term of four or five
30 years (there is no increase based on comparable leases in the
31 county). The \$50,000 annual limit continues to apply to a lease
32 agreement and the \$100,000 annual limit applies to an installment
33 contract. Again, the tax credit for a lease agreement or
34 installment contract is refundable and the taxpayer's election
35 to carry forward the tax credit is limited to the following tax

1 year.

2 BILL'S PROVISIONS — TAX CREDIT RESTRICTION BASED ON INCOME
3 EXCLUSION APPLICABLE TO FARM TENANCIES. The bill provides that
4 an eligible taxpayer may participate in the program to receive
5 a tax credit based on rent payments received under a lease
6 agreement as provided in Code chapter 16 and also elect to
7 subtract (exclude) the same rent payments from the computation
8 of net income as allowed for an eligible individual under Code
9 section 422.7(14).

10 BILL'S PROVISIONS — EFFECTIVE DATES. Generally, the bill
11 takes effect on January 1, 2027. However, a provision that
12 authorizes IFA and DOR to adopt rules to administer the
13 provisions of the bill takes effect upon enactment.

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