



Beginning Farmer Tax Credit (BFTC) Program

December 3, 2021
Estelle Montgomery, Fiscal and Policy Analyst
Research and Policy Division

1

Outline of Remarks

- Beginning farmers as a concept, definition, and within Iowa
- Program history, details, and usage
- Asset owner and beginning farmer participant descriptive statistics
- Economic analysis results
- Summary and conclusion



2

Beginning Farming

- **Why beginning farmers?**
 - A declining, aging population outnumbers the amount of new entrants into the profession
 - New barriers for entry not realized by previous generations
- **Established farmers barriers for exit**
 - Delay retirement beyond traditional retirement ages
- **Beginning farmers barriers for entry**
 - Affordable land
 - Student loans
 - Health insurance
 - Labor shortages

Who Are Beginning Farmers?

- **“Established farmers” vs “beginning farmers” definition**
 - *BFTC definition/eligibility*: Iowa resident, 18 years or older, with a “low or moderate net worth”, access, and a material participant in the farming operation
- **Beginning farmer profiles**
 - Lease more, own less
 - More farm business debt
 - Small operations and economies of scale
 - Primary work off farm

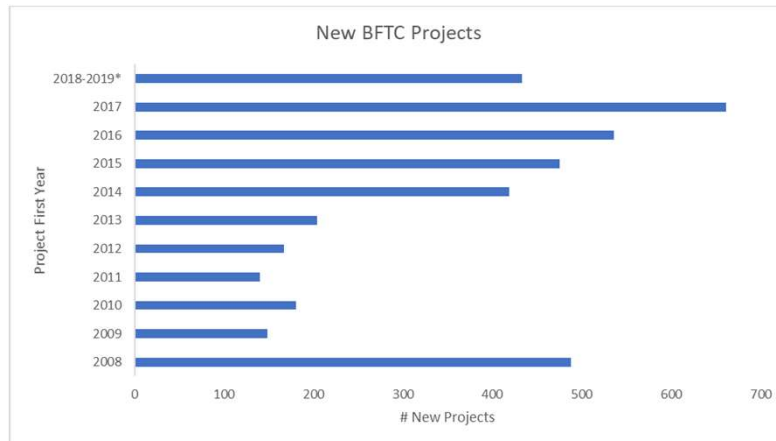
Beginning Farming Tax Credit Program (BTFC)

- Annual program cap of \$12.0 million
- Awarded to an owner of agricultural assets that are subject to a lease or rental agreement with a beginning farmer
- May not exceed \$50,000 in a given year per agreement
- Nonrefundable, but can carryforward
- Not transferable except to estates upon death
- Allowed for asset owners and beginning farmers who are related
- Multiple agreements, but 15 year participation limit

BFTC Projects

- Most projects are crop land asset based
- Average acre project size: 198 acres
- Type of project impacts tax credit rate for asset owners
 - **Fix cash rent:** tax credit equal to 5.0% of the amount paid to the asset owner under a fixed cash rent agreement.
 - **Hybrid/flex:** tax credit equal to 15.0% of the flex bonus amount paid
 - **Crop share:** tax credit rate equal to 15.0% of the amount paid to the asset owner under the agreement
- 2013 through 2017 rate increases
 - Rates were increased by 2.0% in each respective category
 - Additional 1% rate increase for new projects with beginning farmers who were veterans

BFTC Projects



*Years merged to protect tax payer identification

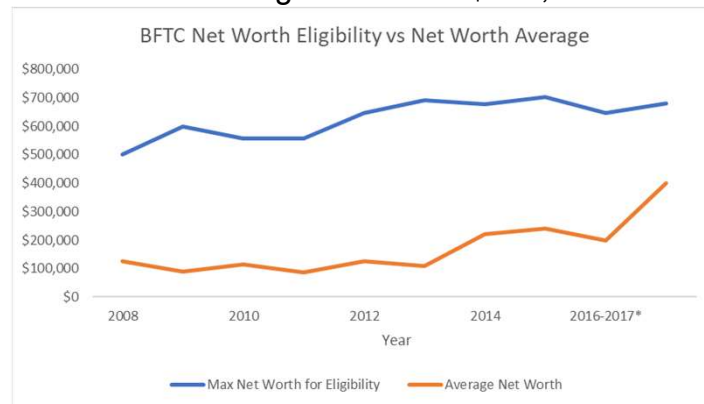
Source: Iowa Agricultural Development Division Database. Note: 2008 includes 2007 projects.

BFTC Farmers

- 1,004 beginning farmers since 2007
- Beginning farmers often start additional new projects within program after initial starting projects
- 82% are 35 years old or younger at entry to program
- Veteran farmer data from 2013-2017
 - 3.7% of new projects
 - 18 – 67 years old
 - Average age: 36 years old

BFTC Farmers

2019 average net worth: \$401,267



*Years merged to protect tax payer identification
Source: Iowa Agricultural Development Division

Iowa Department of
REVENUE

9

BFTC Asset Owners

- 3,759 tax credit certificates issued to asset owners since 2007
- Over 90% Iowa residents
- Crop share agreement projects generate more income than cash rent agreement projects for owners
- An estimated 29% of asset owners are related to the program project's beginning farmer
- Transfers from individual owners to trust and estates upon death over the course of program participation could demonstrate a tendency for Iowa farmland to stay within families instead of being sold to new owners

Iowa Department of
REVENUE

10

BTFC Program: Tax Credit Awards

Award Year	Beginning Farmer Tax Credit			Custom Farming Contract Tax Credit			Beginning Farmer Tax Credit Program Total	
	Number of Certificates	Certificate Amount	Average Certificate Amount	Number of Certificates	Certificate Amount	Average Certificate Amount	Number of Certificates	Certificate Amount
2007	287	\$1,259,113	\$4,387	--	--	--	287	\$1,259,113
2008	651	\$2,032,777	\$3,123	--	--	--	651	\$2,032,777
2009	696	\$2,659,104	\$3,821	--	--	--	696	\$2,659,104
2010	767	\$3,598,519	\$4,692	--	--	--	767	\$3,598,519
2011	789	\$5,222,990	\$6,620	--	--	--	789	\$5,222,990
2012	726	\$5,756,780	\$7,929	--	--	--	726	\$5,756,780
2013	640	\$5,991,784	\$9,362	10	\$28,974	\$2,897	650	\$6,020,758
2014	921	\$6,513,533	\$7,072	14	\$30,045	\$2,146	935	\$6,543,578
2015	1,197	\$6,953,384	\$5,809	22	\$89,703	\$4,077	1,219	\$7,043,087
2016	1,509	\$8,493,635	\$5,629	28	\$114,786	\$4,100	1,537	\$8,608,421
2017	1,832	\$9,504,530	\$5,188	25	\$79,955	\$3,198	1,857	\$9,584,485
2018	1,411	\$5,989,152	\$4,245	--	--	--	1,411	\$5,989,152
2019	1,281	\$6,407,065	\$5,002	--	--	--	1,281	\$6,407,065
Total	12,707	\$70,382,366	\$5,539	99	\$343,463	\$3,469	12,806	\$70,725,829

Source: Iowa Agricultural Development Division Database



BTFC Program: Tax Credit Claims

Tax Year	Beginning Farmer Tax Credit Claims	Custom Farming Contract Tax Credit Claims	Beginning Farmer Tax Credit Program Total Claims
2007	\$656,106	--	\$656,106
2008	\$1,315,362	--	\$1,315,362
2009	\$1,359,910	--	\$1,359,910
2010	\$1,794,200	--	\$1,794,200
2011	\$2,332,066	--	\$2,332,066
2012	\$3,237,388	--	\$3,237,388
2013	\$3,111,619	\$15,606	\$3,127,225
2014	\$3,771,262	\$19,519	\$3,790,781
2015	\$3,867,112	\$47,277	\$3,914,389
2016	\$5,076,962	\$92,444	\$5,169,406
2017	\$5,210,519	\$65,562	\$5,276,081
2018	\$4,604,384	\$24,912	\$4,629,296
2019	\$4,238,426	\$11,200	\$4,249,626
Total	\$40,575,316	\$276,520	\$40,851,836

Source: Iowa Department of Revenue IA 148 Tax Credit Schedule Claims Database.



BFTC Program: Tax Credit Carryforward

Award Year	Tax Credit Claim Year													Three Years After Award	Total to Date
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
2007	52%	21%	8%	6%	6%	3%	--	--	--	--	--	--	--	81%	96%
2008		51%	14%	6%	8%	4%	5%	4%	1%	--	--	--	--	71%	93%
2009			37%	15%	8%	6%	4%	3%	2%	1%	1%	--	--	59%	75%
2010				33%	15%	10%	6%	3%	2%	2%	2%	1%	1%	57%	74%
2011					26%	20%	8%	5%	2%	2%	2%	2%	1%	53%	67%
2012						27%	11%	8%	4%	3%	2%	3%	2%	45%	60%
2013							28%	12%	8%	7%	2%	3%	2%	49%	63%
2014								32%	11%	8%	5%	5%	3%	51%	64%
2015									31%	14%	7%	5%	4%	52%	61%
2016										33%	11%	8%	4%	52%	56%
2017											32%	13%	7%	52%	52%
2018												26%	11%	--	37%
2019													27%	--	27%

Sources: Iowa Agricultural Development Division Database and Iowa Department of Revenue IA 148 Tax Credit Schedule Claims Database.



BFTC Program: Economic Analysis

- Program participants became more established* in farming between 2009 and 2019 than did members of the comparison group
- Program participants had a statistically significant increase in average farm income net profits over the course of ten years and compared to the control group
- Program participants had a higher retention rate than the control group

Although these relationships can be found, the analysis procedures employed do not, in general, describe the strength of these relationships nor the size of the effect.

*Established is defined as continued engagement/longevity in the farming profession after first entry



Conclusion

- Administered by the Iowa Agricultural Development Division of the Iowa Finance Authority
- Beginning farmers needs differ from established farmers
- \$40.8 million in tax credits have been claimed since 2007
- 3,851 program projects incorporating 1,004 beginning farmers since 2007
- Farmers who initially participated in the program in 2009 were more established and profitable in farming ten years later than peers who did not

Questions?

Iowa Department of
REVENUE

Thank you!