

Iowa Beginning Farmer Tax Credit

(Iowa Code §175.37)

**Effective Date -- Jan. 1, 2007 and for tax years
beginning on or after that date**

During its 2006 session, the Iowa Legislature enacted legislation authorizing a tax credit (no appropriation limit) for taxpayers who lease agricultural assets to beginning farmers. The Iowa Agricultural Development Authority (IADA) is charged with developing administrative rules to carry out the new credit. The following is a summary of the key provisions of the legislation (S.F. 2268, Section 2):

General Guidelines

- An “agricultural asset” is defined as “agricultural land, depreciable agricultural property, crops, or livestock.”
- An eligible taxpayer is one that does not violate that Iowa anti-corporate farming law or qualify under that provision solely by means of an exemption.
- Eligible taxpayers include related parties (e.g. father, grandfather, etc.).
- The credit is available for individuals and corporate taxpayers, as well as, members of pass-through entities. For pass-through entities, the amount is based on the member’s pro-rata share of earnings from the entity.
- In order to receive the tax credit the taxpayer must execute a written contract (known as an “asset transfer agreement”) for the transfer of the assets. **NOTE:** A taxpayer will not become ineligible for the credit as a result of a consensual termination of a prior agreement with the beginning farmer, followed by the parties entering into a new asset transfer agreement meeting the beginning farmer tax credit eligibility requirements.
- Asset transfer agreements can be as short as two (2) years or as long as five (5) years.
- The amount of the tax credit is limited to those items addressed in the asset transfer agreement, and is based on the gross amount paid to the taxpayer under the asset transfer agreement.
- A copy of the agreement must be included with the application to the IADA. The credit can only be claimed if the taxpayer has received a tax credit certificate from the IADA. The certificate must be attached to the taxpayer’s return.
- The tax credit certificate will be issued in the taxpayer’s name in the amount of 5% of a cash agreement and 15% for a crop or livestock-share agreement.
- The taxpayer may carry any unused portion of the credit forward for up to five (5) years, but may not carry the credit back to a prior tax year.
- The credit is non-transferable to any other person. However, it can be transferred to the taxpayer’s estate or trust upon the taxpayer’s death.

The IADA cannot issue a tax credit certificate if any of the following apply:

- The taxpayer is at fault (as determined by the IADA) for terminating a previous contract under the Iowa Beginning Farmer Tax Credit Act. In that event, any prior tax credit will be disallowed and the credit is immediately due and payable to the Iowa Department of Revenue.
- The taxpayer is party to any pending administrative or judicial actions (whether contested or not) related to alleged violations involving an animal feeding operation.
- The taxpayer is classified as a habitual violator for violations involving animal feeding operations.

Who Qualifies as a Beginning Farmer:

- The prospective tenant (beginning farmer) must have net worth of less than \$577,825 (eff. Jan. 1, 2011).
- The beginning farmer must also have attained age 18 and have sufficient education and training to operate a production operation and actively participate in the management and labor of the operation.

- The beginning farmer cannot be a shareholder, partner or LLC member of the Lessor.
- IADA will require yearly financial statements and some evidence of adequate working capital or access thereto.
- Beginning farmer will be required to submit copy of Sch. F to IADA by each April 15th.

For more information and application forms, contact Iowa Agricultural Development Authority (IADA). Ph.: (515) 281-6444.

EXAMPLE: John and Mary, husband and wife, own 320 tillable acres of Iowa farm real estate. John is ready to retire and turn their farming operation over to their son, Tom. Tom is currently age 25 and his net worth is less than \$691,172; thereby, qualifying him as a beginning farmer for purposes of the Iowa Beginning Farmer Tax Credit.

John and Mary intend to either (1) cash rent their 320 tillable acres to Tom at \$300 per tillable acre (\$96,000 total); or (2) enter into a 50/50 crop-share lease with Tom. John and Mary would be eligible for a five (5%) percent tax credit under the cash rental arrangement and a fifteen (15%) percent tax credit under the crop-share arrangement (160 acres corn; 160 acres beans) as follows:

- (1) Cash rental tax credit = \$4,800 ($\$96,000 \times 5\%$) per year
- (2) Crop-share tax credit = \$7,932 per year assuming the following:
 - Corn – 160 acres x 170/bu. per acre x \$7.00 x $\frac{1}{2}$ = \$95,200 gross receipts
 - Beans – 160 acres x 45/bu. per acre x \$13.00 x $\frac{1}{2}$ = \$46,800 gross receipts
 - Total gross receipts = $\$142,000 \times 15\% = \$21,300$

NOTE: IADA has indicated that tax credit certificates will be issued for crop-share arrangements based on the average county crop yield at the average county crop price for the month in which harvest was completed.