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for
IADA Beginning Farmer Tax Credit Program

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AGRICULTURAL ASSETS TRANSFER TAX CREDIT

This program is commonly referred to as the Beginning Farmer Tax Credit. The program is administered by the Iowa Agricultural Development Authority and began with the 2007 tax year.

PURPOSE

The tax credit is designed to encourage owners of capital agricultural assets, who lease those assets, to lease them to Iowa's qualifying beginning farmers. The program provides the agricultural asset owner a credit against Iowa income taxes owed.

WHAT AGRICULTURAL ASSETS ARE ELIGIBLE AND INELIGIBLE FOR THE TAX CREDIT?

Agricultural land, improvements and depreciable property (machinery, equipment, and breeding livestock) used for farming purposes. The agricultural assets subject to the lease must be located in the state of Iowa.

The rental of a rural residence is not permitted. If a residence is part of the lease agreement, the lease value of the residence should be specifically identified so it can be excluded from tax credit calculations.

The rental of farmland that is enrolled in CRP is not permitted. If CRP land is part of the lease agreement, the lease value of the CRP ground should be specifically identified so it can be excluded from tax credit calculations.

Feeder cattle, feeder pigs, feeder lambs, feeder chickens or feeder turkeys do not qualify as depreciable property and as a result are not eligible under the program. Other animals such as horses or those classified as "exotic" are eligible if they are a viable "for profit" farming operation, are depreciable property under IRS code and not a "hobby farm."

HOW MUCH IS THE TAX CREDIT?

Cash Rent Agreement

The agricultural asset owner will receive a tax credit of 5 percent of the rental income received under a cash rental agreement.

Example - A beginning farmer leases 150 acres of crop ground for \$150 per acre. This totals \$22,500 in gross rental income for a tax credit of 1,125 ($\$22,500 \times 5.00\%$).

Share Agreement

The agricultural asset owner will receive a tax credit of 15 percent of the value of the owners' share of the product under a share agreement. A pre-calculated county average yield will be utilized. The yield will be calculated utilizing historical USDA county average yields and the final November USDA yield estimate. The price will be determined using the USDA average monthly Posted County Price for the month of harvest.

Example - A beginning farmer leases 150 acres of crop ground in Clay County on a 50/50 share basis. The 2008 county yield for Clay County is 175 bushels per acre. Total crop is 26,250 bushels. The owner's share is 13,125 bushels. The crop was harvested in October. The average posted county price for October in Clay County was \$3.00 per bushel. This results in a tax credit of \$5,906.25. (13,125 bushels x \$3.00 per bushel x 15.00%)

WHAT IS THE TERM OF THE TAX CREDIT?

The lease term must be a minimum of two years and a maximum of five years. A tax credit certificate will be issued for each year of the lease. Upon expiration of the lease, the asset owner and beginning farmer may re-apply for continuance of the tax credit. An eligible beginning farmer will continue to be considered an eligible beginning farmer for the term of the lease even if the eligible beginning farmer's net worth exceeds \$300,000 during the term of the lease.

The tax credit is a non-refundable credit, therefore any credit in excess of the taxpayer's liability for the tax year may be credited to the tax liability for the following five years or until depleted, whichever is earlier

CAN THE AGRICULTURAL ASSET OWNER HAVE MORE THAN ONE TAX CREDIT IF THEY LEASE TO MORE THAN ONE BEGINNING FARMER?

Yes, an agricultural asset owner may obtain a tax credit for each lease they have with a qualified beginning farmer.

WHAT TYPE OF LEASE IS ACCEPTABLE?

The written lease should specify the agricultural assets subject to the lease, the location of the property, the volume of the lease (i.e., number of acres, pieces of equipment, number of animals) and the lease rate or terms. The lease should also specify the term of the lease and terms of payment under the lease. A commodity share lease does not have to be the traditional 50/50 lease terms. (Several good lease templates are available on the Iowa State University Ag Decision Maker website)

The lease term shall be for at least two years, but not more than five years. An existing lease with an eligible beginning farmer is eligible if it meets the minimum two year and maximum five year term (upon application). The tax credit may be renewed at the end of the lease term through re-application and approval.

The agricultural assets should be leased at a rate which is not substantially higher or lower than the market rate for similar agricultural assets leased within the same community, as determined by the Authority. Rental rate adjustments cannot be made arbitrarily. Rate adjustment must be specified in the initial lease agreement with the actual rental rates for each year, or tied to a publicly available rental value index.

The Authority reserves the right to review all agreements and determine that the terms of the lease are beneficial to the beginning farmer and not an attempt to maximize the taxpayer benefit under the program.

WHAT IF THE AGRICULTURAL ASSET OWNER AND THE BEGINNING FARMER AGREE TO LEASE MODIFICATIONS AFTER APPROVAL?

Modifications to the original lease are only allowed if there is a life changing event, for example, death or divorce. If a life changing event occurs, immediately notify the Authority of the change.

LEASE TERMINATION

A taxpayer or beginning farmer may terminate a lease as provided in the lease agreement or by law. The taxpayer must immediately notify the Authority of the termination.

If the Authority determines that the taxpayer is not at fault for the termination, the Authority shall not issue a tax certificate to the taxpayer for any subsequent years based on the approved application. Any prior tax credit is allowed. The taxpayer may apply for and be issued another tax credit for the same agricultural assets for any remaining tax years for which a certificate was not issued.

If the Authority determines that the taxpayer is at fault for the termination, any prior tax credits claimed will be recaptured and the amount of the tax credits claimed will be immediately due and payable to the Iowa Department of Revenue. If a taxpayer does not immediately notify the Authority of a termination, the taxpayer shall be deemed at fault for the termination.

WHO CAN QUALIFY TO OBTAIN THE TAX CREDIT?
(Asset Owner Requirements)

You must be a person who may acquire or otherwise obtain or lease agricultural land in the State of Iowa pursuant to [Chapter 9H or 9I - Code of Iowa](#). This is commonly known as the “Corporate Farming Law.”

An individual may claim the tax credit of a partnership, LLC, S Corporation, estate, or trust by electing to have the income taxed directly to the individual. The amount of tax credit claimed by the individual shall be based upon the pro-rata share of the individual’s earnings from the partnership, LLC, S Corporation, estate or trust. A copy of the Articles of Incorporation, Partnership Agreement, Trust Agreement, etc. must be provided with the application. This document should indicate the financial beneficiaries of the entity and their percent ownership.

The agricultural asset owner cannot be a party to a pending administrative or judicial action, including a contested case proceeding under Chapter 17A, Code of Iowa, relating to an alleged violation involving an animal feeding operation regulated by the Iowa Department of Natural Resources, regardless of whether the pending action is brought by the Department of the Attorney General. The agricultural asset owner cannot be classified as a habitual violator for a violation of state law involving an animal feeding operation as regulated by the Iowa Department of Natural Resources.

The taxpayer cannot be at fault for terminating a prior lease.

WHO IS AN ELIGIBLE BEGINNING FARMER?

A qualified beginning farmer must be of low or moderate net worth. Code of Iowa 175.2.12 defines this as not more than \$300,000.

For a partnership, an aggregate net worth of all partners, including each partner's net capital in the partnership, and each partner's co-applicant and minor children shall not be more than \$600,000. However, the aggregate net worth of each partner and that partner's co-applicant and minor children may not exceed \$300,000.

For a family farm corporation, an aggregate net worth of all shareholders, including the value of each shareholder's share in the family farm corporation and each shareholder's co-applicant and minor children are not to exceed \$600,000. However, the aggregate net worth of each shareholder and that shareholder's co-applicant and minor children may not exceed \$300,000.

For a family farm limited liability company, an aggregate net worth of all members, including the value of each member's share in the family farm limited liability company and each member's co-applicant and minor children are not to exceed \$600,000. However, the aggregate net worth of each shareholder and that shareholder's co-applicant and minor children may not exceed \$300,000.

The beginning farmer shall be a resident of the state of Iowa. If the beginning farmer is a partnership, all partners shall be residents of the state of Iowa. If a beginning farmer is a family farm corporation, all shareholders shall be residents of the state of Iowa. If the beginning farmer is a family farm limited liability company, all members shall be residents of the state of Iowa.

The beginning farmer must have sufficient education, training and/or experience in the type of farming for which the tax credit will be issued. The beginning farmer or a third party shall self-certify that the beginning farmer has sufficient education, training and/or experience through a background letter which shall accompany the application. Such certification is subject to review and confirmation of the Authority.

The beginning farmer has or will have access to adequate working capital, farm equipment, machinery or livestock. This, again, will be self-certified by the beginning farmer or third party. This certification is subject to review and confirmation by the Authority.

The beginning farmer shall materially and substantially participate in farming the assets subject to the lease. If the beginning farmer is a partnership, family farm corporation, or family farm limited liability company, each partner, shareholder or member shall materially and substantially participate in farming. In addition, the beginning farmer shall assume the financial risk associated with operating the agricultural asset subject to the lease, and annually submit a copy of their IRS Schedule F to the Authority.

The agricultural assets subject to the lease shall only be used for farming by the qualified beginning farmer.

If the beginning farmer is found to be in violation of these requirements, a tax credit will not be issued for subsequent years and the matter will be referred to the Iowa Department of Revenue for potential administrative or judicial review.

HOW DO I APPLY FOR THE TAX CREDIT?

A beginning farmer and agricultural asset owner must prepare and submit an application to the Authority. Application forms are available from the Authority or on the Authority's website address of www.iada.state.ia.us. The applications should be completed by the beginning farmer and the agricultural asset owner and submitted directly to the Authority. The completed application should be accompanied by the beginning farmer's current financial statement and background letter and a copy of the agricultural asset lease and a completed and signed "**Authorization For Release Of Confidential State Tax Information**" signed by the agricultural asset owner.

Additional supporting information is needed with the application and this information is listed on the application. In order to document ownership of the land and to certify the acres being leased, the land owner must provide a copy of a "USDA Farm Service Agency Abbreviated 156 Farm Record form.

Additionally, since the tax credit is issued to individuals only, if the agricultural asset being leased is owned by a partnership or corporation, a copy of the partnership agreement or articles of incorporation must be provided. A list of the partners or shareholders must also be provided along with their percentage of ownership in the entity. Similar information must be provided if the Beginning Farmer will operate the farm as a partnership or corporation.

WHAT TYPE OF FINANCIAL STATEMENT IS REQUIRED?

A copy of the beginning farmer's current financial statement, taken within 30 days prior to submission of the application, witnessed by a bank officer and signed by all applicants, must be submitted with the application. If the beginning farmer and/or co-applicant are involved in a business, partnership, corporation, etc., either related or unrelated to his/her farming operation, a financial statement from this entity must also be submitted with the application.

If the beginning farmer is a partnership, family farm corporation, or family farm limited liability company, each partner, shareholder or member shall submit a personal financial statement in addition to a statement of the operating entity.

Total Assets - Total assets shall include but not be limited to the following: Cash; crops or feed on hand; livestock held for sale; breeding stock; marketable bonds and securities; securities (not readily marketable); accounts receivable; notes receivable; cash invested in growing crops; net cash value of life insurance; machinery equipment; cars and trucks; farm and other real estate including life estate and personal residence; value of beneficial interest in a trust; government payments or grants; and any other assets.

All assets shall be valued at fair market value by the beginning farmer's lender. The value shall be what a willing buyer would pay a willing seller in the locality.

Total assets shall not include items used for personal, family or household purposes by the applicant, but in no event shall any property be excluded, to the extent a deduction for depreciation is allowable for federal income tax purposes. A deduction of 10 percent may be made from fair market value of farm and other real estate.

The beginning farmer and their lender shall complete a true and accurate statement and the above adjustments will be made by the Authority upon receipt of the application.

Total Liabilities - Total liabilities shall include but not be limited to the following: Accounts payable; notes or other indebtedness owed to any source; taxes; rent; amount owed on real estate contracts or real estate mortgages; judgments; accrued interest payable; and any other liabilities.

Liabilities shall be determined on the basis of generally accepted accounting principles.

WHAT IS THE BACKGROUND LETTER?

The background letter will better able the Authority and its board of directors to evaluate the project and the application. The letter should explain the beginning farmer's background with respect to his or her education and experience in the type of farming operation for which a tax credit is sought. The letter should outline the beginning farmer's access to machinery if the loan is for land or his or her access to land if the loan is for agricultural improvements or depreciable agricultural property. The letter should also state where the beginning farmer will obtain operating capital, if necessary, along with contact information for the lender. The letter should also give a brief background of the farming operation subject to the lease.

WHEN AND HOW WILL THE APPLICATIONS BE APPROVED?

Completed applications received by the 15th of the month will be reviewed and considered by the Authority's board of directors at that month's board meeting. Applications received after the 15th of the month will be reviewed at the next month's board meeting. If the 15th falls on a Saturday or Sunday, then applications will be due on the preceding Friday. **Must have in no later than December 15th to go to December Board meeting and be eligible to receive a credit for that year.** If the application is incomplete the Beginning Farmer and the Asset Owner will be contacted with the request for the needed information. There will be one month allowed to submit the needed information, after which the file will be withdrawn. Should the application be withdrawn due to insufficient information upon request, no monies will be refunded.

ARE THERE ANY COSTS OR FEES WITH THE PROGRAM?

Since the Authority does not receive any general fund or other monies to support the program, a modest \$200 administrative fee is required with the application. This fee may be paid by either the beginning farmer or the agricultural asset owner. Should the application be denied, \$150 will be refunded. Should the application be withdrawn due to insufficient information upon request, no monies will be refunded.

CAN I RENT FROM A RELATED PERSON?

Yes, you may rent from a related person such as a father or grandfather. Those transactions could be subject to additional scrutiny, however. The background letter submitted with related party transactions should be very specific as to the involvement of the related party and sources which can independently confirm the legitimacy of the transaction should be identified.

HOW AND WHEN WILL THE TAX CREDIT CERTIFICATE BE ISSUED?

Cash Rental Contract - After the approval of a cash rental agreement, the Authority will issue an approval letter which will specify the terms of the approval (if any). Tax credit certificates will be issued by January 31 of the following year assuming all requirements have been met.

Share Agreement Contract - After approval of a share agreement contract, the Authority will issue an approval letter which will specify the terms of the approval (if any).

Previously it was anticipated that IADA would collect actual yield and sales price documentation on land subject to a crop share agreement. This information would be used to determine the tax credit amount the landowner had earned. It has become obvious that this method is burdensome for both parties and presents an unintended opportunity for misuse of the program. Therefore, effective **October 1, 2007**, the following procedure was established to be used to determine the tax credit award on crop share rental agreements.

The following procedure will be used to calculate the tax credit amount regardless of whether the crop is sold at harvest or stored for later sale. Livestock share leases will continue to use the actual dollar amount of product sold for the tax credit calculation.

Yield Data: The IADA will use a pre-calculated county average yield. This yield will be calculated annually using historical USDA county average yields and the November final USDA yield estimate for the current year.

This method will be used, as the direct submission of actual yield data on the part of the landowner could be fairly paperwork intensive. In addition, there is no standard way of documenting actual yield data short of requiring all production to go across certified scales. Finally, there exists a possibility of inaccurate yield reporting in order to obtain an increased tax credit.

Price Data: The IADA will use the monthly average USDA Posted County Average Price for the month of harvest for the county(ies) in which the tract(s) subject to the lease are located. This information is available the first business day following the end of the month at this web address:
<https://arcticocean.sc.egov.usda.gov/acr/>

Either the landowner or tenant with a crop share lease should complete the “*Crop Share Lease Information Form*” following harvest and submit it to the IADA office. This form will verify the crop acres grown and the month of harvest. This form can be found as part of the application packet (Page 9) or on the IADA website.

HOW DO I REDEEM THE TAX CREDIT?

The taxpayer should complete their Iowa State Tax Return as normal. The taxpayer should supply their tax preparer with the tax credit certificate issued by the Authority. The tax preparer should complete State of Iowa Tax Form IA148 - Tax Credits Schedule and attach it to the taxpayer's tax return.

WHAT IS REQUIRED IN FUTURE YEARS AFTER APPROVAL?

Annually, the beginning farmer will be required to **submit a copy of their Federal Schedule F to the Authority by May 1 of each year.**

Should either party become aware of any violation of the lease, violation of the Code of Iowa or the Administrative Rules of the program, they shall immediately notify the Authority. Failure to do so could result in disallowing of previous tax credits received as well as future tax credits.

Under commodity share agreements, the ***Crop Share Lease Information Form* should be submitted annually following harvest and prior to December 1. (Available on IADA website)**

Iowa Beginning Farmer Tax Credit Program

Crop Share Harvest Information Form

Asset Owners: Please return this form by December 1st!

(If harvesting in December or January, please submit information by January 15th)

☞ Mail to: Iowa Agricultural Development Authority
505 Fifth Avenue, Suite 327
Des Moines, Iowa 50309

OR
☞ Fax to: 515-281-8618
OR

☞ E-Mail: This form is available on the IADA website for quick and easy return:
www.iada.state.ia.us. Please access the Beginning Farmer Tax Credit Program link in order to use this form.

Tax Credit Project Number: _____

*(submit a separate form for each project number,
do not combine information from multiple projects)*

Land/Asset Owner Name: _____

Land/Asset Owner Address: _____

Tenant Name: _____

Type of asset subject to lease: Land Machinery Livestock

Total crop acres subject to the lease: _____

<i>County</i>	<i>Crop Grown</i>	<i># Acres</i>	<i>Month of Harvest</i>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

<i>County</i>	<i>Hay Type/Straw</i>	<i>Types of Bales</i>	<i># of Bales</i>
_____	(grass, alfalfa)	(Lg. rd or sq., Sm sq.)	_____

****Livestock share agreements must submit the actual: Livestock type, # of, average weight & price. The sales ticket with this information is sufficient. If you have not sold your livestock, a third party appraisal is required.****