**2015 IOWA BEGINNING FARMER**

**TAX CREDIT PROGRAM**

(Agricultural Assets Transfer Tax Credit)

**PROGRAM SUMMARY**



IOWA FINANCE AUTHORITY

2015 Grand Avenue | Des Moines, Iowa 50312

515.725.4900 | 800.432.7230 | fax 515.725.4901

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Rev. 2/2015

BFTC Summary

**Agricultural Assets Transfer Tax Credit**

This program is commonly referred to as the Beginning Farmer Tax Credit (BFTC) program. The Iowa Agricultural Development Division (IADD) of the Iowa Finance Authority administers the program. The BFTC program is designed to encourage owners of capital agricultural assets to lease their assets to Iowa’s qualifying beginning farmers. The program provides the agricultural asset owner a credit against Iowa income taxes owed.

**Qualifications of Asset Owner**

1. The asset owner must be an individual person, partnership, LLC, corporation, estate, or trust that can own agricultural land in the State of Iowa pursuant to [Chapter 9H or 9I – Code of Iowa](http://search.legis.state.ia.us/NXT/gateway.dll/IowaState/ISLRoot/code.htm?f=templates&fn=default.htm). This is commonly known as the “Corporate Farming Law.”
2. If the agricultural asset owner is a partnership, LLC, corporation, estate, or trust, one tax credit certificate will be issued to the F.I.N of the entity (LLC, corporation, estate, or trust).
3. **The asset owner cannot**:
4. Be at fault for terminating a prior lease to a beginning farmer.
5. Be a party to a pending administrative action, judicial action, or a contested case relating to an alleged violation involving an animal feeding operation regulated by the Iowa Department of Natural Resources.
6. 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.

**Qualifications of Beginning Farmer**

1. The beginning farmer must be a resident of the state of Iowa. If the beginning farmer is part of a partnership, corporation or LLC, all partners, shareholders or members must be residents of the state of Iowa.
2. A qualified beginning farmer must be of low or moderate net worth. As defined in the Iowa Code, for 2015, this is defined as having net worth less than $703,844. For a partnership, corporation or LLC, the net worth of each partner, shareholder or member cannot exceed $703,844.
3. The beginning farmer must provide a background letter with the application that describes their education, training and/or experience in the type of farming for which the tax credit will be issued. The letter can be written by the beginning farmer or by another person knowledgeable about the beginning farmer.
4. The beginning farmer must own or have access to adequate working capital, farm equipment, machinery or livestock.
5. The beginning farmer must perform the duties required to farm the asset according to the lease. If the beginning farmer is part of a partnership, corporation or LLC, **each** partner, shareholder or member must materially and substantially participate in farming.
6. The beginning farmer assumes the financial risk associated with operating the agricultural asset subject to the lease.
7. The beginning farmer cannot sub-lease to any other person or entity.
8. If the beginning farmer is found to be in violation of these requirements, a tax credit will not be issued and the matter will be referred to the Iowa Department of Revenue for potential administrative or judicial review.
9. An eligible beginning farmer will continue to be eligible for the term of the lease even if the beginning farmer’s net worth increases to exceed the maximum net worth.

**Acceptable Projects, Activities, Contracts**

**Eligible / Ineligible Agricultural Assets**

1. Eligible agricultural assets:
   1. Eligible assets to be leased include: agricultural land, buildings and depreciable property (machinery, equipment, and breeding livestock) used for farming purposes.
   2. The agricultural assets involved with the lease must be located in the state of Iowa.

2. Ineligible assets:

a. 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.

b. 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.

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

**Requirements for Leases**

1. There must be a written lease and it must specify:
   1. Asset owner and tenant
   2. The agricultural assets involved with the lease, the location of the property, the volume of the lease (i.e., number of acres, pieces of equipment, number of animals).
   3. The term of the lease including starting and ending dates.
   4. The specifications of payment under the lease.
2. The term of the lease must be a *minimum of two years and a maximum of five years*.
3. Flex leases or leases with complex terms will not receive any tax credit bonus for bonus yields. Applicants should contact IADD staff prior to submitting the application to confirm a mutual understanding on how the tax credit will be calculated.
4. A commodity share lease does not have to be the traditional 50/50 lease terms, but must explain factors in the beginning farmer’s background letter as to why asset owner will receive more or less than 50%.
5. 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.
6. Actual cash rents must be specified in the lease agreement for each year.
7. Upon expiration of the lease, the asset owner and beginning farmer may re-apply.
8. A beginning farmer may have a lease with a related person such as a brother, sister, father or grandfather, but not with an entity owned by the beginning farmer - tenant.

**Changes to the Lease**

1. Modifications to the original lease are allowed if:
   1. There is a life changing event, (death or divorce)
   2. Revised terms are beneficial for the beginning farmer tenant.
2. The lease cannot be transferred or assumed by another person or entity unless an IADD “Request to Adjust Lease Terms or Conditions” is submitted to and approved by the IADD.
3. The IADD “Request to Adjust Lease Terms or Conditions” must be submitted and approved by the IADD prior to the amendment becoming effective.

**Lease Termination**

1. An asset owner or beginning farmer may terminate a lease only if explained fully in the lease agreement.
2. The asset owner or beginning farmer must immediately notify the IADD of the termination so no further tax credits are issued. If the asset owner does not immediately notify the IADD of a termination, the asset owner shall be deemed at fault for the termination.
3. If the IADD determines the asset owner is not at fault for the termination, all prior tax credits are allowed.
4. If the IADD determines that the asset owner is at fault for the termination, any prior tax credits claimed will be recaptured and the amount of the tax credits claimed along with penalties and interest will be immediately due and payable to the Iowa Department of Revenue.

**Tax Credits**

1. A tax credit certificate will be issued for each year of the lease. The tax credit certificates will be issued by January 31. If the agricultural asset owner is a partnership, LLC, corporation, estate, or trust, only one tax credit certificate will be issued for the entity.
2. The tax credit is a non-refundable credit. If tax credit exceeds the amount of Iowa State income taxes owed, any excess credits can be used for up to ten years. To redeem the credit use State of Iowa Tax Form IA 148 – Tax Credit Schedule.
3. An additional 1% tax credit is issued for the first year of the lease if the beginning farmer is a military veteran.
4. If an agricultural asset owner has multiple leases with qualified beginning farmers, they will receive one tax credit certificate that consolidates all of the respective lease tax credit amounts.
5. The total amount of Iowa income tax credits allowed per asset owner and/or application per year is $50,000.

**Calculating Tax Credit Amount**

1. **Cash Rent Lease**

The agricultural asset owner will receive a tax credit equal to 7 percent of the rental income received.

***Cash Rent Example*** – A beginning farmer leases 160 acres of crop ground for $200 per acre for a total of $32,000 in gross rental income. The tax credit is $2,240 ($32,000 x 7.00%).

1. **Crop Share Lease**
2. All acres will be allocated with 50% to corn and 50% to soybeans, – these will be the number of acres consistently used for the entire term of this tax credit project.
3. All tax credit calculations will be completed with the respective county’s previous year’s historical average T-yield data and the previous year’s RMA Iowa fall price. This information will be posted on the IADD website.

***Crop Share Lease Example*** – A beginning farmer leases 160 acres of crop ground on a 50/50 share basis with ½ acres allocated to corn and ½ acres to soybeans. Calculation of:

Corn = 80 acres x 167\* bu/acre x 50% x $3.49 x 17% = $3,963.24

Total corn crop is 13,360 bushels; owner’s share is 6,680 bushels.

Soybeans = 80 acres x 48\* bu/acre x 50% x $9.65 x 17% = $3,149.76

Total soybeans crop is 3,840 bushels; owner’s share is 1,920 bushels.

Total share lease tax credit = $7,113.00

\*Corn and soybean yields will be calculated with respective county’s T-yields

1. Flex Lease Agreements
2. For flex leases, **there will not be any bonus tax credit included with the calculations**; it will be calculated on the base cash rent terms provided in the lease.
3. Flex leases calculated on a base cash rent will receive a 7% tax credit on the amount of the cash rent.

**Application Process**

1. The application must be completed by **BOTH** the beginning farmer and the agricultural asset owner.
2. All applications for the year must be received no later than October 1st; applications received after July 1 will have a higher base application fee of $250, instead of $200, plus the annual servicing fee, and may be subject to availability of tax credit allocation.
3. Applications must be **complete** with all attachments and the application fee to be considered.
   1. Applicants submitting incomplete applications will be informed of the missing information needed and allowed 30 days to provide the information to the IADD, after which the application will be withdrawn.
   2. No application fees paid will be refunded if the necessary information is not received within 30 days or if an application is approved and later withdrawn by the beginning farmer or asset owner.
   3. If the asset owner or beginning farmer voluntarily withdraws the application within 30 days, only the yearly service fees will be refunded. The $200 application fee will be retained by IADD.
4. After the approval of a tax credit application, both the beginning farmer and the asset owner will receive an approval letter.
5. After the approval letters are sent, the asset owner and beginning farmer only need to provide:
   1. Changes of their mailing address, phone number, email address
   2. Request to change lease terms, before the changes are implemented – only changes beneficial to beginning farmer will be considered.

**Application Fees**

The application fee is to be made payable to the Iowa Agricultural Development Division (IADD). Application fees are as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Cash Rent/Flex Application Fees** | | |  | **Crop Share Application Fees** | | |
|  | Before | After |  |  | Before | After |
|  | July 1 | July 1 |  |  | July 1 | July 1 |
| 2 years | $300 | $350 |  | 2 years | $400 | $450 |
| 3 years | $350 | $400 |  | 3 years | $500 | $550 |
| 4 years | $400 | $450 |  | 4 years | $600 | $650 |
| 5 years | $450 | $500 |  | 5 years | $700 | $750 |

**Change of Contact Information**

1. Both the asset owner and beginning farmer are expected to provide IADD any changes of contact information, including mailing address, email address, telephone numbers.
2. Please complete and submit the Change of Contact Information form and either mail or email to the address provided on the form.

**Additional Questions?**

If you have questions you can:

1. Send an email to iadd@iowa.gov
2. Call 515-725-4900

***Application forms are available at*** [***IowaFinanceAuthority.gov/IADD***](http://IowaFinanceAuthority.gov/IADD)

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**Change of Contact Information**

**Iowa Beginning Farmer Tax Credit Program**

**Return this form if there are any changes to your contact information to:**

E-Mail: IADD@iowa.gov

OR

Mail to: Iowa Finance Authority Date Requested:\_\_\_\_\_\_\_\_\_\_

Iowa Agricultural Development Division

2015 Grand Avenue

Des Moines, Iowa 50312

OR

Fax to: 515.725.4901

**Submit a separate form for each project number**

**Do not combine information from multiple projects**

Tax Credit Project Number:

Asset Owner Name:

Asset Owner Address:

Asset Owner Telephone:

Asset Owner Email Address:

Tax Credit Project Number:

Beginning Farmer Name:

Beginning Farmer Address:

Beginning Farmer Telephone:

Beginning Farmer Email Address: