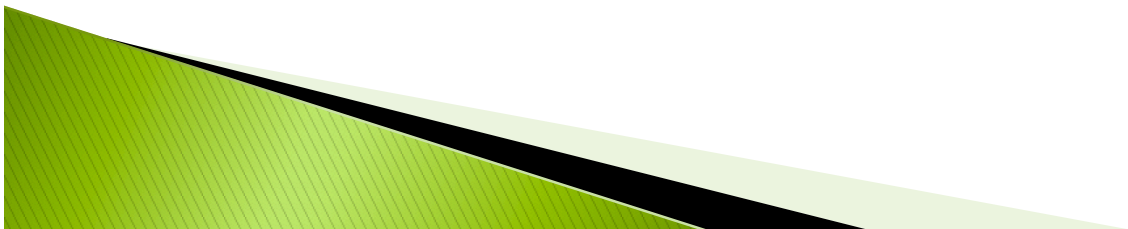


Harvesting Iowa's Potential: Using Tax Credits to Cultivate Beginning Farmers

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Outline of Remarks

- ▶ Background on the Iowa Beginning Farmer Tax Credit Program
- ▶ Similar Tax Credits in Other States
- ▶ Barriers to Entry and Exit from Farming
- ▶ Characteristics of Beginning Farmers
- ▶ Design for Assessing the Impact of the Tax Credit



Beginning Farmer Tax Credit Program

▶ Agricultural Assets Transfer Tax Credit

- Awarded to an owner of agricultural assets that are subject to a lease or rental agreement with a beginning farmer
- 7 percent of the amount paid to the taxpayer under a rental agreement, or
- 17 percent of the amount paid to the taxpayer under a crop share agreement
- Began in 2007



Beginning Farmer Tax Credit Program

- ▶ **Custom Farming Contract Tax Credit**
 - Awarded to landowners who hire a beginning farmer to do custom work
 - 7 percent of the value of the contract
 - For tax years 2013 through 2017



Beginning Farmer Tax Credit Program

- ▶ Annual Program Cap of \$12 million
 - \$8 Million – Agricultural Assets Transfer Tax Credit
 - \$4 Million – Custom Farming Contract Tax Credit
- ▶ Limit of \$50,000 for an individual taxpayer
- ▶ Nonrefundable
- ▶ Not transferable
- ▶ Ten year carryforward for certificates issued since 2008
- ▶ Applicable against individual income tax and corporation income tax

Application

- ▶ Iowa Agricultural Development Division (IADD) of the Iowa Finance Authority (IFA).
- ▶ Made jointly by both the asset owner and the beginning farmer



Beginning Farmer Eligibility

- ▶ Age 18 or over
- ▶ Net worth below the limit for tax year
 - Limit = \$703,844 in 2015
 - Indexed to inflation by USDA Prices Paid by Farmers Index
- ▶ Plans to materially participate in farming
- ▶ Has education or experience in farming



Federal and State Incentives for Beginning Farmers

- ▶ USDA Farm Service Agency (FSA) direct farm loans and farm loan guarantees
- ▶ Aggie Bonds
- ▶ USDA's Transition Incentive Program (TIP)



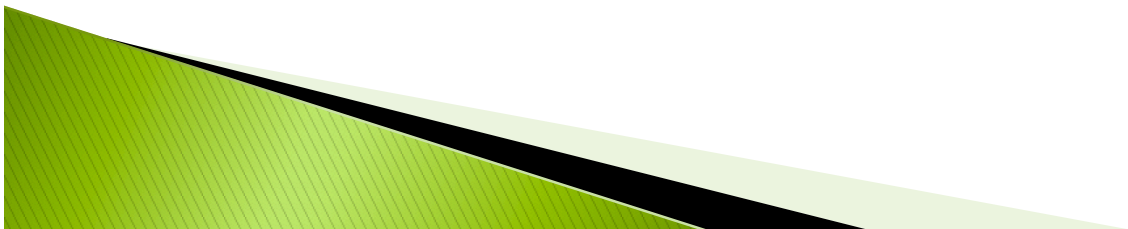
State Tax Credits for Leasing Agricultural Assets to Beginning Farmers

- ▶ Nebraska – 1999
- ▶ Iowa
 - AATTC – 2007
 - CFCTC – 2013
- ▶ Wisconsin – 2011–2013



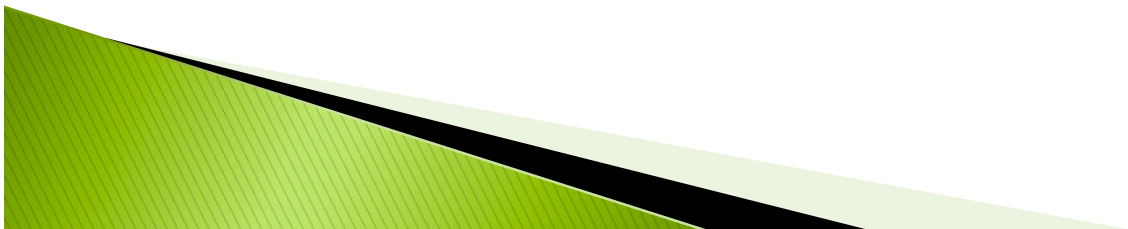
Nebraska

- ▶ State resident
- ▶ Net worth below \$200,000
 - Subject to indexation in \$25K increments
- ▶ Has education or experience in farming
- ▶ Has farmed for less than ten of the preceding 15 years
- ▶ Has participated in approved financial management education program



Nebraska

- ▶ **Applicable assets include**
 - Land
 - Livestock
 - Facilities
 - Machinery
- ▶ **Tax credit =**
 - 10% of cash rent amount
 - 15% for crop share agreements



Barriers to Entry into Farming

- ▶ Access to land
- ▶ Access to credit
- ▶ Access to government payments
- ▶ Farm consolidation
- ▶ Deferred retirement

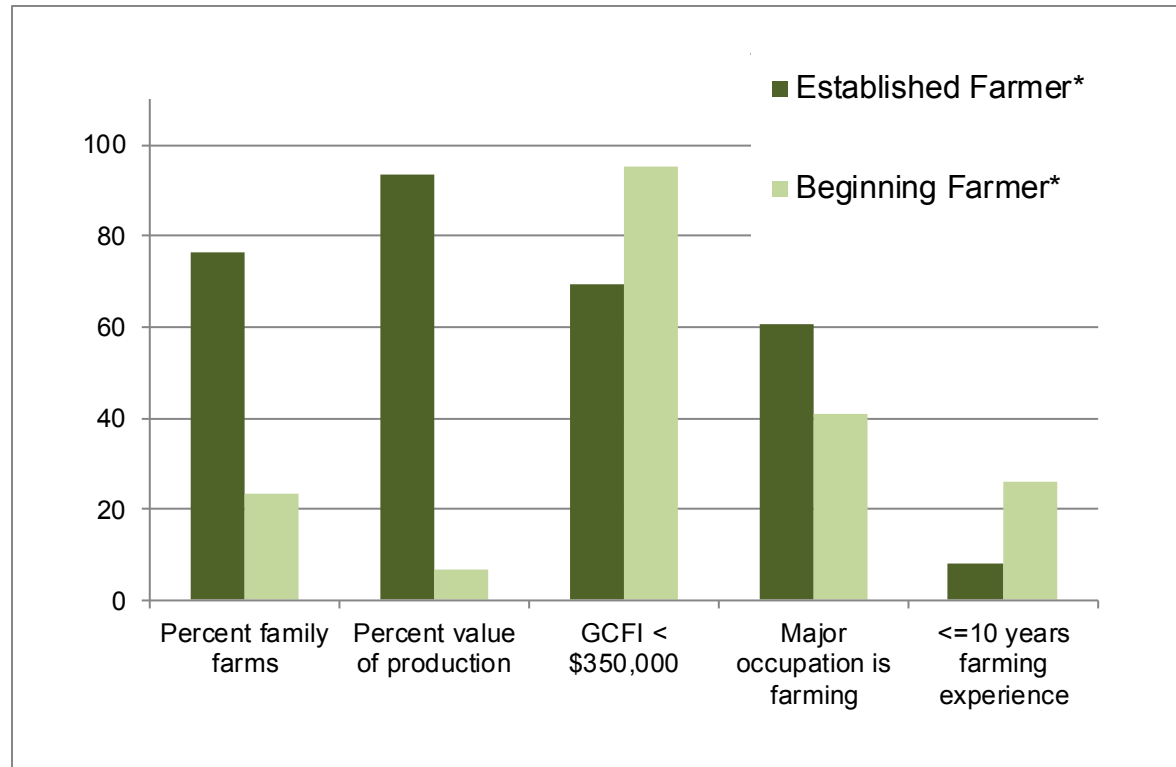


Barriers to Exit from Farming

- ▶ Cost of withdrawing equity
- ▶ Cost of providing for transition
- ▶ Receipt of government program payments
- ▶ High commodities prices and high cash rents



Overview of Beginning Farming in Iowa



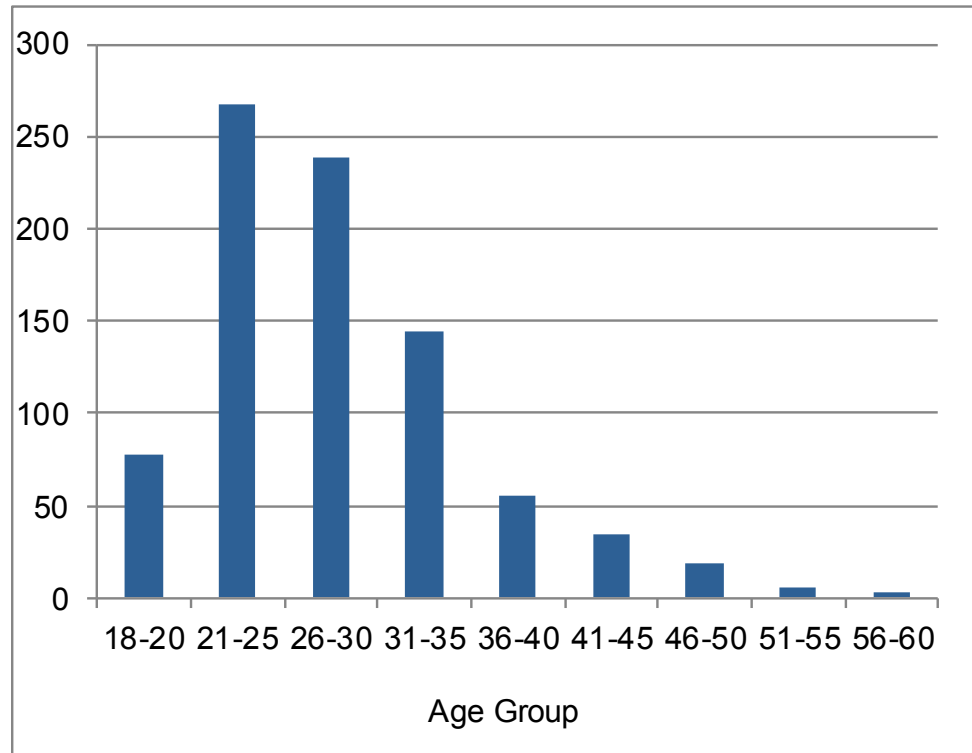
* Based on net worth criterion of BFTC



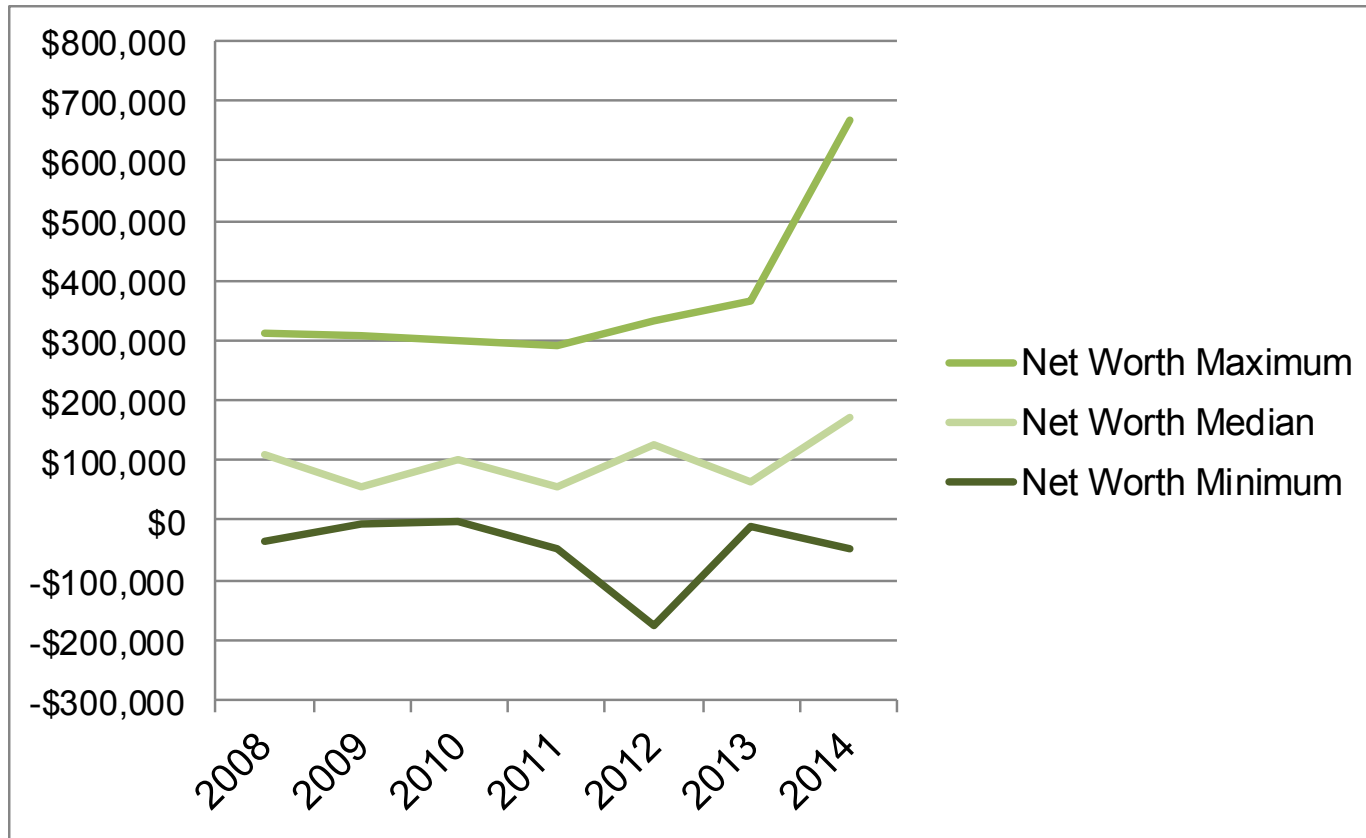
Participating Beginning Farmers

Certificate Year	Number of Projects in First Certificate Year	Number of Beginning Farmers in First Certificate Year	Number of Beginning Farmers Matched by Name to Tax Returns
2008	488	339	318
2009	147	73	68
2010	180	83	78
2011	140	71	68
2012	167	84	68
2013	204	109	93
2014	419	206	136
TOTAL	1,745	965	829

Participating Beginning Farmers' Age

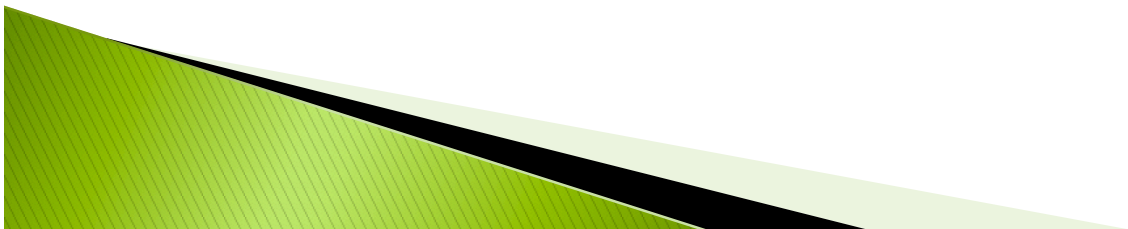


Beginning Farmers' Net Worth



Projects and Lease Income

Certificate Year	Number of Projects	Beginning Farmers	Cash Rent Lease Income	Crop Share Lease Income	Total Lease Income	Average Lease Income per Project
2008	488	339	--	--	\$20,976,765	\$42,985
2009	532	379	--	--	\$24,356,015	\$45,782
2010	570	414	--	--	\$31,043,501	\$54,462
2011	588	432	--	--	\$43,254,377	\$73,562
2012	538	408	--	--	\$46,355,779	\$86,163
2013	584	441	\$15,017,258	\$30,433,281	\$45,450,539	\$77,826
2014	845	601	\$22,412,141	\$29,737,218	\$52,149,359	\$61,715



Program Awards by Award Year

Award Year	Agricultural Assets Transfer Tax Credit		Custom Farming Contract Tax Credit		Beginning Farmer Tax Credit Program Total	
	Number of Awards	Award Amount	Number of Awards	Award Amount	Number of Awards	Award Amount
2007	287	1,259,103			287	1,259,103
2008	488	2,032,760			488	2,032,760
2009	532	2,663,338			532	2,663,338
2010	569	3,598,502			569	3,598,502
2011	586	5,222,987			586	5,222,987
2012	538	5,756,759			538	5,756,759
2013	640	5,991,752	10	28,975	650	6,020,726
2014	921	6,513,509	14	30,046	935	6,543,554
Total	4,561	\$33,038,708	24	\$59,020	4,585	\$33,097,728



Program Claims

Year of Claim	Agricultural Assets Transfer Tax Credit	Custom Farming Contract Tax Credit	Beginning Farmer Tax Credit Program Total
2007	656,088		\$656,088
2008	1,312,723		1,312,723
2009	1,361,800		1,361,800
2010	1,773,436		1,773,436
2011	2,320,850		2,320,850
2012	3,218,325		3,218,325
2013	2,521,286	15,606	2,536,892
2014	2,259,897	7,585	2,267,482
Total	\$15,424,405	\$23,191	\$15,447,596



Claims by Award Year

Award Year	Award Amount	Tax Credit Claim Year								Total
		2007	2008	2009	2010	2011	2012	2013	2014	
2007	1,259,103	52%	21%	8%	6%	6%	3%	0%	0%	97%
2008	2,032,760		51%	14%	6%	8%	4%	2%	1%	86%
2009	2,663,338			37%	14%	8%	6%	2%	1%	69%
2010	3,598,502				33%	15%	10%	4%	1%	64%
2011	5,222,987					26%	19%	5%	2%	52%
2012	5,756,759						27%	9%	4%	40%
2013	6,020,726							25%	8%	33%
2014	6,543,554								20%	20%



Economic Analysis

- ▶ To what extent is participation in the BFTC Program associated with positive economic outcomes for beginning farmers?
 - Farm income
 - Share of household income from off-farm sources
 - Payments from governmental agricultural programs
 - Debt repayment capacity (ratio of farm debt to farm income)



Questions?

