2022 Survey of Nebraska Beginning Farmer Tax Credit Participants: Results Summary

Julia Valliant (jdv@iu.edu) and Marie O'Neill (mtoneill@iu.edu)
Indiana University

[USDA Land Access Policy Incentives Research & Extension project](#)

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Summary

Here are preliminary results from a 2022 survey of participants in Beginning Farmer Tax Credits **(BFTC)** around the country, conducted by the Indiana University Sustainable Food Systems Science research group as part of a USDA-funded assessment of land access incentive policies nationwide.

A total of 150 beginning farmers and landowners who have participated in the Nebraska BFTC since 2008 filled out the survey (representing a random sample of 50 beginning farmers and 100 landowners, or "asset owners"). Here are top takeaways for Nebraska. Find more detailed survey results here.

Takeaways to understand

The Tax Credit is praised, and yet land access challenges persist.

Both Beginning Farmer and Rancher (BFR) and landowner participants in the Tax Credit rate the Tax Credit highly. Clear majorities of both BFRs and owners find the Tax Credit helpful, are satisfied by it, and view it as a good tool for the state. BFRs also say that the Tax Credit helps them to market themselves and helps their farm operation to succeed. At the same time, there is nuance to their approval. BFRs who have enrolled in the Tax Credit clarify that the policy does not solve their land access challenges: **most BFRs who have enrolled in the Nebraska BFTC still face a land access challenge at the present time (70%).**

Another nuance appeared in questions that explored whether the BFTC is inspiring participants to do something different than they were already doing. A majority of owners did attribute their land access agreements to the BFTC (60%), and most beginners said they would have needed to compromise more on land or equipment without the BFTC (60%). Those responses pointed to the distinctive and helpful function of the Tax Credit. At the same time, small majorities of BFRs (52%) and owners (60%) also said that the same lease would have happened even without the benefit of the Tax Credit. These are puzzles we will examine further in 2023 during formal statistical analysis of these responses.

Nebraska stands out among BFTC states in that the Tax Credit does appear to usually precipitate a new rental relationship between tenants and landowners who haven't worked together before, compared to other states. In Nebraska, only 28% of respondents first enrolled in the Tax Credit with someone who was their prior landlord or tenant. This is lower compared to Minnesota, where 42% of respondents enrolled with their existing tenant or landlord, and Iowa, where 40% had an existing leasing relationship. Nebraska's BFTC appears to somehow motivate new relationships more than other states' BFTCs, or something other than business as usual.

Landowners are giving a break on rental prices.

More good news is that the Tax Credit is leading to a price break on about half of rental agreements in Nebraska (51%). While this is encouraging, this number is lower than participants in Minnesota's BFTC, where 60% of participants claim they either received or gave a break on rent. About half of BFRs in Nebraska say they have received a price break from their asset owner or seller (52%). And half of owners say they have given a price break to a BFR (50%).

Share rents are comparatively prevalent, and leases are not leading to sales to BFRs.

Most land access agreements enrolled in the Tax Credit are for cash rent (52%). Nebraska's BFTC enrolls about the same percentage of share rent agreements as Iowa's BFTC, however it has enrolled more share rent agreements than Minnesota's BFTC. In Nebraska, 38% of leases are share rent agreements, compared to only 9% in Minnesota. Even though the states presently provide the same tax credit levels (15% on share rents and 10% on cash rents), according to these responses, the Nebraska BFTC may somehow work better than those of its neighbors to fulfill an original goal of Nebraska's BFTC in 1999, which was to encourage share rental agreements, because, compared to cash rents, share rents buffer BFRs' levels of risk and capital investment and support their entry and success. Enrolling in the BFTC with a share rent agreement also means that landowners receive a tax credit worth 15% of their share of the gross crop revenue, which could be a higher than 10% of the cash rent amount. The other 10% of Nebraska respondents enrolled in another type of agreement, such as flex rent. In the case of flex rent, risk is also shared between the BFR and the landowner, but on specified terms and typically there is less risk sharing than in a traditional share rent agreement.

On the other hand, few lease agreements enrolled in the Tax Credit have later led to a sale of assets to the BFR (only 5%). This indicates that the rental access the Tax Credit facilitates does not translate to landownership, at least in the case of outright sale of the Tax Credit parcel.

Tax Credit landowner characteristics and land transfer plans

Most landowners enrolled in the Tax Credit have started making plans to transfer their land (73%). Nearly three in four owners will wait to transfer all of their land after the time of their death, through their estate (73%). Some will go ahead and transfer at least some land during their lifetimes (27%). Some plan to do both (17%). A large majority of landowners will only transfer their holdings to family (83%). Another 12% will transfer at least some land to a successor from a different family.

Nebraska does not incentivize sales of assets through its BFTC as is the case with Minnesota's BFTC. In fact, nearly one in five respondents in Minnesota are using their state's BFTC for sales of land or other assets to a BFR (18%). We were interested to see if including sales in Nebraska's BFTC would make it more likely that owners would sell their land to BFRs. When asked if a state income tax credit on the sale of land would make it more likely for a landowner to transfer land to a BFR during their lifetime, 78% of landowners said maybe or yes. 22% of landowners said no. So, the inclusion of sales in Nebraska's BFTC would influence whether or not landowners transfer their land to BFRs as it has in Minnesota.

Another key piece of the puzzle is federal capital gains tax policy. We asked landowners how much capital gains taxes influence their land transfer plans. As we established earlier, most landowners are planning to transfer land through their estate to family members, which would avoid capital gains taxes under current federal tax rules. Most landowners (72%) report their land transfer plans being somewhat or heavily affected at the prospect of paying federal capital gains taxes. Only 20% feel their plans are not influenced by capital gains.

Who is participating among Beginning Farmers?

Largely people who grew up in farming families, or generational farmers (88%). The other 12% of BFR participants, those who did not grow up on a farm, is lower than in Minnesota, where 20% of BFTC enrollees are first-generation farmers or ranchers. However, Nebraska's respondents included a higher percentage of BFRs who did not grow up on a farm than in Iowa, where only 6% of BFRs are first-generation farmers. Farms that enroll in the Tax Credit produce feed grains (69%), followed by food grains (16%), livestock/poultry (9%), and other types of products (horticultural crops / timber / forage) (6%).

Landholdings and scales of operations: **Most Nebraska BFRs who enroll in the Tax Credit presently own land (61%).** Unfortunately, the survey did not ask BFRs if they were landowners when they first enrolled in the BFTC, so the land they currently own could have been acquired after their participation in the BFTC. The median value of the landowning BFRs' holdings is 145 acres. BFRs' landholdings are higher in Nebraska than in Minnesota (80 acres) and Iowa (80 acres). The most land owned by a BFR respondent was 2,800 acres. If Nebraska wished to guardrail BFRs' eligibility according to their landholdings, other states' related policies provide templates for that, for example the Iowa Beginning Farmer Loan Program, Delaware Young Farmers Program, and Kentucky Selling Farmer Tax Credit.

Lease agreements through Nebraska's BFTC are generally for 251 acres (median value). BFRs who enroll in the Nebraska BFTC operate 552 acres (median value). BFRs in the Nebraska BFTC operate more land than enrollees in the Iowa (450 acres) and Minnesota (132 acres) BFTCs. They aspire to farm 2,500 acres one day (median value).

Expanding tax credits to serve more groups of Historically Underserved farmers

Our research is also assessing other land access policies that incentivize landowners to rent or sell to Black, Indigenous, Hispanic, Asian, and other farmers and ranchers of color, who may not also be BFRs (such as the federal CRP-TIP). In the interest of equitable land transfer to marginalized groups, we were interested to see if BFRs and asset owners would be open to the BFTC being extended to historically underserved farmers who are not beginning farmers, as any beginning farmer regardless of racial background may already qualify. So we put a question in the Tax Credit surveys to ask BFTC participants how much they would agree with expanding land access tax credits to also serve producers of color, even if they aren't a BFR. Over three-quarters of Nebraska respondents (78%) were in agreement or neutral.

Nebraska Beginning Farmer Tax Credit Participants by County