

Saving America's Working Lands Conference

State Policies to Support Land Transfer and Access



Finance Authority

BEGINNING FARMER TAX CREDIT PROGRAM

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Beginning Farmer Tax Credit Program

- **Barrier served: Access to land**
- Encourages agricultural asset owners to lease their land, equipment and/or buildings to qualified beginning farmers
- Provides asset owner a tax credit on state of Iowa income taxes
 - **5% on cash rent**
 - **15% on crop share**
 - **15% on flex lease**
- Tax credits (all years) allocated the year application is approved
- Tax credit certificates will be issued annually through lease term
- Allocation is \$12 million annually



Don't let the name fool you!

- The original name of program was the Agricultural Assets Transfer Tax Credit Program
- The tax credit program benefits the beginning farmer by getting them access to land
- The financial benefit, the tax credit, goes to the asset owner as an incentive to lease to a beginning farmer



Who is a Beginning Farmer?

For ALL IADD Programs

Net worth less than
\$820,000
(2025 maximum)

This amount
changes every year

At least 18 years old
(No upper age limit)

Resident of Iowa

All beginning farmer
applicants must:

Be owner or
operator of the farm
– cannot lease to or
hire someone else to
do the work

Have sufficient
education, training
and experience for
the anticipated farm
operation

Have access to
adequate working
capital, farm
machinery, livestock
and/or ag land

NO restriction on
number of operating
years

Do not have FSA
requirement of >3
years and <10 years



Application Requirements

All information MUST
be the same on:

BFTC Application

- Must be submitted before August 1st
- Application Fee must be included
- Fee is based on a combination of the number of acres and term of the lease

Lease

- Must be 2-5 years in length
- All parties involved with lease must be listed and sign lease

FSA 156 Form

- Confirms farm location, acres, ownership and operator
- Beginning farmer must be listed as operator

Metrics for Decision Makers


- Eligibility
 - Qualified Beginning Farmer
- Lease
 - Verifying Acres and lease participants
- 156 Form
 - Verifying Beginning Farmer is the operator, the lessor is the asset owner, and the acres align with the lease
- Monthly Reporting on per acre lease amount, crop share percentage, total amount of lease and total tax credit amount (multi-year)

BFTC Program Requirements


Lease term must be between 2-5 years



Can re-apply, but asset owner limited to 15 years in the program

- When re-applying - beginning farmer must still qualify with new net worth amount
 - To re-apply - submit entirely new application and pay new application fee
- 

Cash rent amount or crop share percentage:

- Does not have to be the same for each year of the lease
 - Specific amount must be listed on lease for each year
 - Cash rent lease value cannot be more than 30% above county average cash rent
 - Per ISU survey
- 

Flex lease risk-sharing factors:

- Will be calculated on an equation adopted by rule by the Authority
- 

Lease can be with closely related family members

- Parents can lease to their children

County	Average Cash Rent	30% Above Average
Adair	\$224	\$291
Adams	\$266	\$346
Allamakee	\$302	\$393
Appanoose	\$193	\$251
Audubon	\$290	\$377
Benton	\$293	\$381
Black Hawk	\$307	\$399
Boone	\$290	\$377
Bremer	\$325	\$423
Buchanan	\$285	\$371
Buena Vista	\$302	\$392
Butler	\$298	\$387
Calhoun	\$303	\$394
Carroll	\$296	\$385
Cass	\$268	\$348
Cedar	\$285	\$371
Cerro Gordo	\$292	\$380
Cherokee	\$337	\$438
Chickasaw	\$294	\$382
Clarke	\$238	\$309
Clay	\$277	\$360
Clayton	\$314	\$408
Clinton	\$265	\$345
Crawford	\$308	\$400
Dallas	\$286	\$372
Davis	\$223	\$290
Decatur	\$208	\$270
Delaware	\$339	\$441
Des Moines	\$232	\$302
Dickinson	\$272	\$354
Dubuque	\$338	\$439
Emmet	\$268	\$348
Fayette	\$297	\$386
Floyd	\$256	\$333
Franklin	\$296	\$385
Fremont	\$257	\$334
Greene	\$275	\$358
Grundy	\$319	\$415
Guthrie	\$268	\$348
Hamilton	\$275	\$358
Hancock	\$269	\$350
Hardin	\$297	\$386
Harrison	\$321	\$417
Henry	\$279	\$363
Howard	\$271	\$352
Humboldt	\$302	\$393
Ida	\$334	\$434
Iowa	\$258	\$335
Jackson	\$287	\$373
Jasper	\$289	\$376

County	Average Cash Rent	30% Above Average
Jefferson	\$235	\$306
Johnson	\$277	\$360
Jones	\$304	\$395
Keokuk	\$247	\$321
Kossuth	\$287	\$373
Lee	\$320	\$416
Linn	\$308	\$400
Louisa	\$263	\$342
Lucas	\$187	\$243
Lyon	\$336	\$437
Madison	\$238	\$309
Mahaska	\$224	\$291
Marion	\$253	\$329
Marshall	\$289	\$376
Mills	\$281	\$365
Mitchell	\$291	\$378
Monona	\$302	\$393
Monroe	\$187	\$243
Montgomery	\$274	\$356
Muscatine	\$223	\$290
O'Brien	\$324	\$421
Osceola	\$299	\$389
Page	\$257	\$334
Palo Alto	\$283	\$368
Plymouth	\$298	\$387
Pocahontas	\$293	\$381
Polk	\$289	\$376
Pottawattamie	\$287	\$373
Poweshiek	\$278	\$361
Ringgold	\$269	\$350
Sac	\$299	\$389
Scott	\$331	\$430
Shelby	\$290	\$377
Sioux	\$333	\$432
Story	\$291	\$378
Tama	\$305	\$397
Taylor	\$261	\$339
Union	\$253	\$329
Van Buren	\$202	\$263
Wapello	\$223	\$290
Warren	\$203	\$264
Washington	\$298	\$387
Wayne	\$193	\$251
Webster	\$273	\$355
Winnebago	\$282	\$367
Winneshiek	\$302	\$393
Woodbury	\$289	\$376
Worth	\$257	\$334
Wright	\$302	\$393

30% Above the County Average Cash Rental Rate

- Source: 2023 Iowa State Extension Cash Rental Rate Survey – for 2024 BFTC Applications
- Rents in “red” have decreased while rents in “black” have increased from 2023

Calculating Cash Rent Tax Credit

160 tillable acres cash rented at \$300 per acre

Gross lease income: $160 \times \$300 = \$48,000$

Iowa income tax credit at 5% = \$2,400

- Asset owner receives tax credits for each year of the 2-5 year lease term approved
- Nothing more required by IFA during the term of the lease





Crop Share Tax Credit Calculation Method

Determining tillable acres, yield and price

- **Acres:** Yearly allocate 50% to corn and 50% to beans (Unless lease states otherwise)
- **Yield:** County's previous 10-year average corn/soybean T-yields (eliminating highest and lowest yields)
- **Price:** USDA previous 5-year average state prices (eliminating highest and lowest prices)

Calculating tax credit amount

- Crop share tax credit amount is calculated with the percentage of crop the asset owner receives



Calculating Crop Share Tax Credit

160 tillable acres in Jasper County

Allocating $\frac{1}{2}$ corn and $\frac{1}{2}$ soybeans with 50/50 crop share

- 80 acres corn x 202.2 bu/acre x \$4.78 x 50% x 15% = \$5,799.10
 - Total corn crop = 16,176 bushels; Owner's share = 8,088 bu.
- 80 acres soybeans x 58.4 bu/acre x \$10.99 x 50% x 15% = \$3,850.90
 - Total soybean crop = 4,584 bushels; Owner's share = 2,292 bu.

Total Iowa tax credit = \$9,650.00

Rounded to nearest dollar = \$9,650.00

Calculation based on:

- County's 10-year average T-yields (eliminating highest and lowest yields)
- 5-year average state prices (eliminating highest and lowest prices)



Tax Credit Maximums

- IADD can allocate a maximum of \$12 million annually in tax credits
 - The Beginning Farmer Tax Credit allocation comes from a State Budget allocation, however no funds are allocated for the administration of the program
- Each credit can be carried forward for 10 years, but it can not be used on previous years taxes
- \$50,000 maximum tax credit, per lease, per year

Beginning Farmer Tax Credit Application Checklist

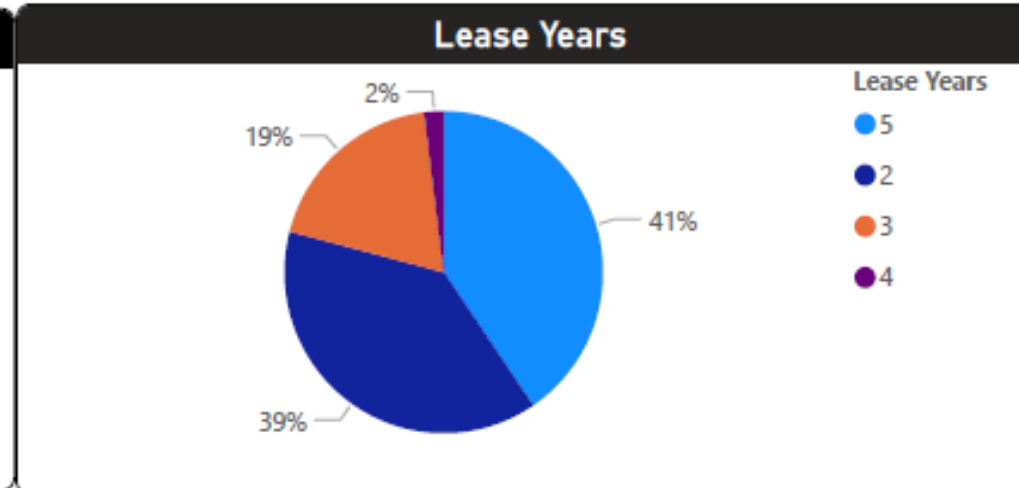
1. Application Fee payable to the Iowa Agricultural Development Division (IADD)

Acres	2 year lease	3 year lease	4 year lease	5 year lease
100 or Less	\$300	\$350	\$400	\$450
101 to 250	\$400	\$450	\$500	\$550
251 or More	\$500	\$550	\$600	\$650

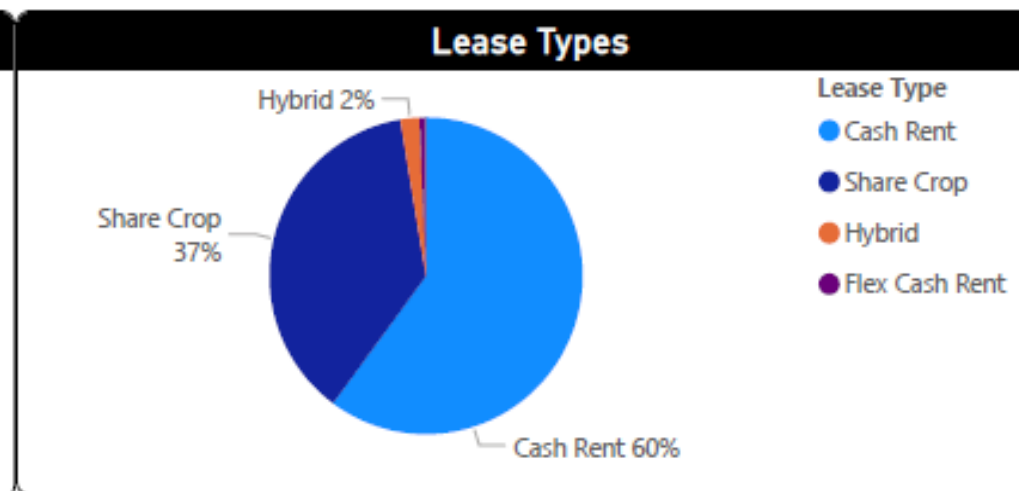
2. Asset Owner (AO) Form
3. Beginning Farmer (BF) Form
4. Beginning Farmer Background Form or Letter
5. Beginning Farmer's Financial Statement
6. 2-5 year lease
7. FSA 156 Form
8. Parent/Child Acknowledgement (if applicable)
9. Acknowledgement to Forfeit Flex Lease Bonus (if applicable)

Beginning Farmer Tax Credit New Applications Summary 2024 Annual Report

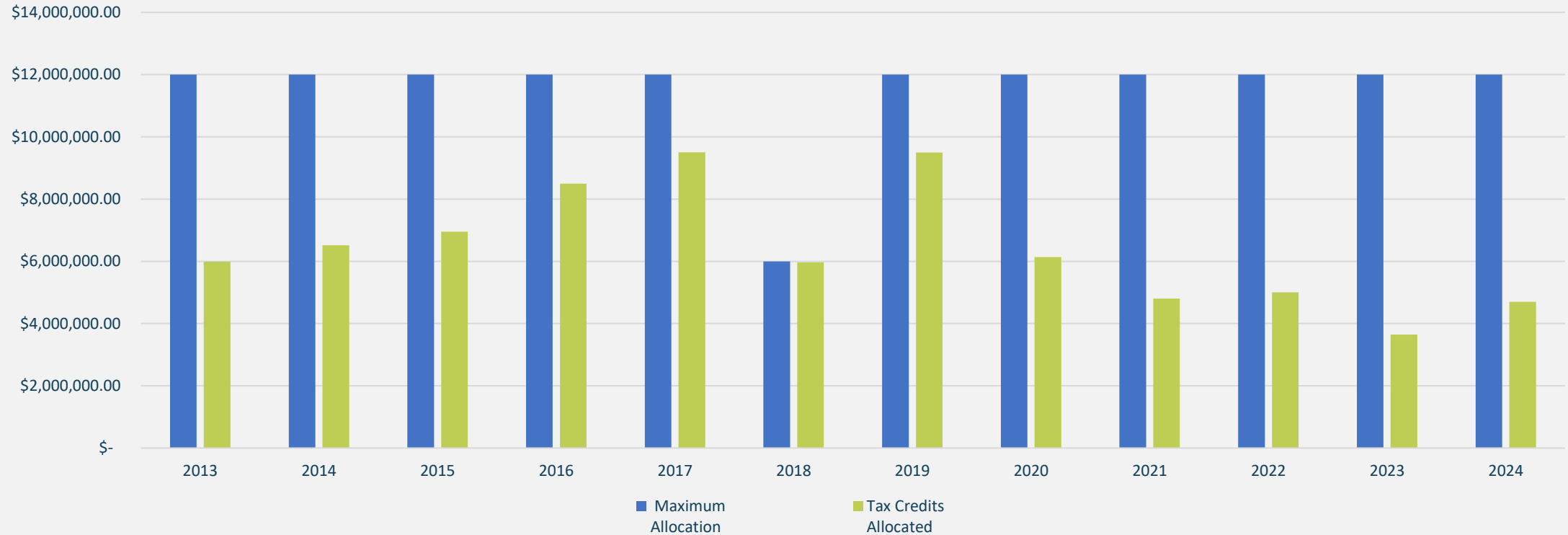
Lease Years		
Count	\$ Volume	Lease Years
59	\$501,615	2
29	\$549,105	3
3	\$17,691	4
62	\$3,631,647	5
153	\$4,700,058	



Lease Types		
Count	\$ Volume	Account Lease Type
92	\$911,828	Cash Rent
1	\$20,725	Flex Cash Rent
3	\$145,453	Hybrid
57	\$3,622,052	Share Crop
153	\$4,700,058	



Beginning Farmer Tax Credit Program



2017 – BFTC Sunset dropped maximum to \$6 million for BFTC and eliminated the Custom Farming Tax Credit

2018 - \$6 million already allocated for BFTC – NO new applications accepted in 2018

2019 – Allocation was increased to \$12 million and changed from tax credits issued to tax credits awarded (all years of lease)

Advice and Successes



Don't recreate the wheel

- * Seek advice from other States with similar programs
- * Most States are willing and able to share legislation and resources



Keep legislative changes to a minimum

- * Legislative changes to the program cause needed administrative changes often requiring updates to software and processing
- * Have good relationships with interest groups who could affect legislation of the program



Seek program advice from those administering the program

- * Enhancements often come from administrators
- * They know the program and how to make it better

Additional benefits and wish list for program

Effective Transition Tool

- Because the Beginning Farmer Tax Credit program can be used between closely related parties (not allowed in some states) it is a valuable transition tool for families transitioning their farms to the next generation.

Wish list for program:

- Add real estate sales to program
- Increase cash rent percentage up from 5%
- Make tax credit transferrable to beginning farmer



Home on the Farm

The Beginning Farmer Tax Credit program has been a valuable resource for landlords and tenants since 2007. Brian Kautzky is proud about the program allowing him and his brothers to return to the family farm.

IADD Loan Programs



Beginning Farmer Loan Program

- Rate Reduction Program
- Aggie Bond



Loan Participation Program

- Down Payment Assistance Program

Loan Programs were created to provide beginning farmers access to affordable capital



What is an Aggie Bond?

- Aggie Bonds are tax-exempt private activity bonds (PAB) used to assist beginning farmers in acquiring agricultural assets at reduced interest rates
- They allow private lenders to receive federal and/or state tax-exempt interest on loans made to eligible beginning farmers
- The tax-savings allows the lenders to provide the loans at a reduced interest rate to the beginning farmer
 - Most lenders can decrease the rate 20-25%
- The credit decisions and financial risk remain with the local lending institutions



States with Aggie Bond Programs

Arkansas	Montana
Colorado	Nebraska
Illinois	North Carolina
Indiana	North Dakota
Iowa	Oklahoma
Kansas	Oregon
Maryland	Pennsylvania
Minnesota	South Dakota
Missouri	Washington



Using the BFLP and FSA 5/45/50 Together

% of Project	Funding Source	Total	Interest Rate	1 st year Interest
5% of project	Down payment	\$ 50,929		
45% of project	FSA Loan	\$ 300,150	1.50%	\$ 4,502
50% of project	Aggie Bond	\$ 667,500	5.81%	\$38,782
		\$1,018,579		\$43,284

COMPARED TO

% of Project	Funding Source	Total	Interest Rate	1 st year Interest
5% of project	Down payment	\$ 50,929		
95% of project	Traditional Loan	\$ 967,650	7.75%	\$74,923
		\$1,018,579		\$74,923

\$31,639 Interest Savings in the first year

Lifetime savings on Aggie Bond

7.75% Interest Loan Amortization Schedule

Loan Information		Summary	
Loan Amount	667,500.00	Rate (per period)	7.750%
Annual Interest Rate	7.750%	Number of Payments	30
Term of Loan in Years	30	Total Payments	1,736,982.65
First Payment Date	1/1/2025	Total Interest	1,069,482.65
Payment Frequency	Annual	Est. Interest Savings	(0.28)
Compound Period	Annual		
Payment Type	End of Period		
Annual Payment		57,899.41	

5.81% Interest Loan Amortization Schedule

Loan Information		Summary	
Loan Amount	667,500.00	Rate (per period)	5.810%
Annual Interest Rate	5.810%	Number of Payments	30
Term of Loan in Years	30	Total Payments	1,425,341.68
First Payment Date	1/1/2025	Total Interest	757,841.68
Payment Frequency	Annual	Est. Interest Savings	(0.00)
Compound Period	Annual		
Payment Type	End of Period		
Annual Payment		47,511.39	

Loan Breakdown	7.75% Interest	5.81% Interest	Total Saving on Aggie Bond
Loan Amount	\$667,500	\$667,500	
Total Interest	\$1,069,483	\$757,842	\$311,641
Annual P&I Payments	\$57,899	\$47,511	\$10,688
Total P&I Payments	\$1,736,983	\$1,425,342	\$311,641

Loan Participation Program

Reduces the lender's risk:

- IFA takes last-in/last-out funding position
- Allows lender to finance more beginning farmer projects and assist with down payment funds

Maximum amount – 30% of cost, up to \$200,000

Interest rate

- Current interest rate: 4.00% Fixed
- Effective annually on January 1st– Interest rate will be equal to 3.50% below Wall Street Prime as of November 15th
- Board re-evaluated for 2025 and decreased to 4.00%
- Rate will lock at time of approval and be fixed for the 10-year balloon term

10-year balloon – amortization depends on purpose:

- Land = 20 years unless using FSA program then 30 years
- Facilities = 12 years
- Machinery & breeding livestock depend on useful life

No restrictions on related party transactions



Using an FSA Guarantee in Conjunction with IADD Loan Programs

Example: Financing the construction of Livestock Facility = \$750,000

- Project Cost Fees
- \$200,000 - Loan Participation Program (LPP) \$100 app fee + 1.50% of LPP
- \$250,000 - Beginning Farmer Loan Program (BFLP) \$100 app fee + 1.50% of BFLP
- \$300,000 - Bank loan with FSA Guarantee Waived for using LPP or BFLP
- \$750,000
- **FSA Guarantee can be obtained on the remaining financing**
 - Guarantee would be on bank loan only – Not the LPP or BFLP loan
- FSA normally charges a guarantee fee of 1.50% of the guaranteed portion
- **When using either IADD Loan program the FSA guarantee fee is waived**
- For more information on FSA's programs and eligibility requirements visit: www.fsa.usda.gov/FSA





National Council of State Agricultural Finance Programs

- The National Council of State Agricultural Finance Programs (NCOSAFP) was established in 1984 to provide national representation for states operating finance programs for the agricultural industry
- Our mission is to facilitate communication and education for our members and represent the interests of agriculture in developing legislation, regulation, and other issues affecting public agricultural finance in cooperation with private industry
- State Agricultural Program Directory can be found at stateagfinance.org