

APR 19 2005

WAYS & MEANS CALENDAR

HOUSE FILE 869
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HF 387)
(SUCCESSOR TO HF 137)

Passed House, Date 4-25-05 Passed Senate, Date 4-28-05
Vote: Ayes 100 Nays 0 Vote: Ayes 46 Nays 1
Re-passed 4-29-05 98-0 Approved VETOED 6/10/05 *Re-passed 5-5-05 49-1*

A BILL FOR

1 An Act relating to tax credits provided for purposes of acquiring
2 agricultural assets by beginning farmers, and providing
3 effective and applicability dates.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 869

1 Section 1. Section 175.2, Code 2005, is amended by adding
2 the following new subsection:

3 NEW SUBSECTION. 0A. "Agricultural assets" means
4 agricultural land, depreciable agricultural property, crops,
5 or livestock.

6 Sec. 2. NEW SECTION. 175.37 AGRICULTURAL ASSETS -- TAX
7 CREDIT.

8 1. A tax credit is allowed against the taxes imposed in
9 chapter 422, division II or III, to facilitate the transfer of
10 agricultural assets from a taxpayer to a beginning farmer.

11 2. a. In order to qualify for the tax credit, the
12 taxpayer must meet qualifications established by rules adopted
13 by the authority. At a minimum, the taxpayer must be a person
14 who may acquire or otherwise obtain or lease agricultural land
15 in this state pursuant to chapter 9H or 9I. However, the
16 taxpayer must not be a person who may acquire or otherwise
17 obtain or lease agricultural land exclusively because of an
18 exception provided in one of those chapters or in a provision
19 of another chapter of this Code including but not limited to
20 chapter 10 or 10C, or sections 15.331B or 15E.207.

21 b. In order to qualify as a beginning farmer, a person
22 must be eligible to receive financial assistance under section
23 175.12.

24 3. An individual may claim a tax credit under this section
25 of a partnership, limited liability company, S corporation,
26 estate, or trust electing to have income taxed directly to the
27 individual. The amount claimed by the individual shall be
28 based upon the pro rata share of the individual's earnings
29 from the partnership, limited liability company, S
30 corporation, estate, or trust.

31 4. The tax credit is allowed only for agricultural assets
32 that are subject to a lease or rental agreement. The
33 agreement may be made on a cash basis or on a commodity share
34 basis which includes a share of the crops or livestock
35 produced on the agricultural land. The agreement must be in

1 writing. The lease must be for a term of at least two years.
2 The lease may be renewed for a term of at least two years.
3 The taxpayer may claim the tax credit under the renewal lease
4 in the same manner as the original lease. A lease does not
5 include a lease intended as a security.

6 5. The tax credit shall be calculated based on the gross
7 amount paid to the taxpayer under the lease or rental
8 agreement.

9 a. Except as provided in paragraph "b", the tax credit
10 shall equal five percent of the amount paid to the taxpayer
11 under the agreement.

12 b. The tax credit shall equal fifteen percent of the
13 amount paid to the taxpayer from crops or animals sold under
14 an agreement in which the payment is exclusively made from the
15 sale of crops or animals.

16 The taxpayer may claim the tax credit until the beginning
17 farmer is no longer eligible to receive financial assistance
18 under section 175.12. A tax credit in excess of the
19 taxpayer's liability for the tax year may be credited to the
20 tax liability for the following five years or until depleted,
21 whichever is earlier. A tax credit shall not be carried back
22 to a tax year prior to the tax year in which the taxpayer
23 redeems the tax credit. A tax credit shall not be
24 transferable to any other person other than the taxpayer's
25 estate or trust upon the taxpayer's death.

26 6. A taxpayer shall not claim a tax credit under this
27 section unless a tax credit certificate issued by the
28 authority is attached to the taxpayer's tax return for the tax
29 year for which the tax credit is claimed. The authority must
30 review and approve an application for a tax credit as provided
31 by rules adopted by the authority. The application must
32 include a copy of the lease or rental agreement. The
33 authority may approve an application and issue a tax credit
34 certificate to a taxpayer who has previously been allowed a
35 tax credit under this section. However, the authority shall

1 not approve an application or issue a certificate to a
2 taxpayer if any of the following applies:

3 a. The taxpayer is at fault for terminating a prior lease
4 or rental agreement subject to this section as determined by
5 the authority.

6 b. The taxpayer is any of the following:

7 (1) A party to a pending administrative or judicial
8 action, including a contested case proceeding under chapter
9 17A, relating to an alleged violation involving an animal
10 feeding operation as regulated by the department of natural
11 resources, regardless of whether the pending action is brought
12 by the department or the attorney general.

13 (2) Classified as a habitual violator for a violation of
14 state law involving an animal feeding operation as regulated
15 by the department of natural resources.

16 c. The beginning farmer is responsible for managing or
17 maintaining agricultural land and other agricultural assets
18 that are greater than necessary in order to adequately support
19 a beginning farmer as determined by the authority according to
20 rules which shall be adopted by the authority.

21 d. The agricultural assets are being leased or rented at a
22 rate which is substantially higher or lower than the market
23 rate for similar agricultural assets leased or rented within
24 the same community, as determined by the authority.

25 7. The authority shall review each existing lease or
26 rental agreement which is part of an application approved by
27 the authority on a quarterly basis. The authority may require
28 that the taxpayer and the beginning farmer provide additional
29 information as determined relevant by the authority.

30 8. A taxpayer or the beginning farmer may terminate a
31 lease or rental agreement as provided in the agreement or by
32 law. The taxpayer must immediately notify the authority of
33 the termination.

34 a. If the authority determines that the taxpayer is not at
35 fault for the termination, the authority shall not issue a tax

1 certificate to the taxpayer for a subsequent tax year based on
2 the approved application. Any prior tax credit is allowed as
3 provided in this section. The taxpayer may apply for and be
4 issued another tax credit certificate for the same
5 agricultural assets as provided in this section for any
6 remaining tax years for which a certificate was not issued.

7 b. If the authority determines that the taxpayer is at
8 fault for the termination, any prior tax credit allowed under
9 this section is disallowed. The tax credit shall be
10 recaptured and the amount of the tax credit shall be
11 immediately due and payable to the department of revenue. If
12 a taxpayer does not immediately notify the authority of the
13 termination, the taxpayer shall be conclusively deemed at
14 fault for the termination.

15 Sec. 3. APPLICABILITY AND EFFECTIVE DATES. This Act takes
16 effect January 1, 2006, and is applicable to tax years
17 beginning on or after that date.

18 EXPLANATION

19 This bill amends provisions regarding the agricultural
20 development authority (referred to as the "authority")
21 established in Code chapter 175, the "Iowa Agricultural
22 Development Act". The authority is an instrumentality housed
23 in the office of treasurer of state that is responsible for
24 administering a number of programs to assist agricultural
25 producers, including the beginning farmer program. A
26 beginning farmer is an individual, partnership, family farm
27 corporation, or family farm limited liability company as
28 provided under Code chapter 9H (Iowa's corporate farming law),
29 with a low or moderate net worth who engages in farming or
30 wishes to engage in farming.

31 The bill provides a tax credit for owners of agricultural
32 assets (agricultural land, depreciable agricultural property,
33 crops, or livestock) who help beginning farmers to acquire
34 agricultural assets by lease or rental arrangements. The tax
35 credit may be taken against individual or corporate income.

1 An owner (referred to as the taxpayer) claims the tax credit
2 after receiving a certificate issued by the authority which is
3 attached to the taxpayer's tax return. The bill provides for
4 limited carry forward but does not provide for carry back.
5 Generally the taxpayer cannot transfer the tax credit. There
6 is one exception: the tax credit can pass to the taxpayer's
7 estate.

8 The taxpayer must be a person who may acquire or otherwise
9 obtain or lease agricultural land in the state under Code
10 chapter 9H or 9I (restricting foreign ownership of
11 agricultural land). In addition, the taxpayer cannot acquire
12 or otherwise obtain or lease agricultural land exclusively
13 because of an exception provided in one of those Code chapters
14 (e.g., an encumbrance taken for purposes of security). The
15 person also cannot hold land based on an exception in other
16 Code provisions, including Code chapter 10 (corporate
17 networking entities), 10C (life science enterprises), Code
18 section 15.331B (businesses in economic development areas), or
19 15E.207 (an Iowa agricultural industry finance corporation).

20 The bill provides a number of restrictions upon the
21 authority in approving applications and issuing certificates.
22 The taxpayer cannot be at fault for terminating a prior lease;
23 the taxpayer cannot be involved in legal proceedings regarding
24 environmental violations; the beginning farmer cannot be
25 provided more agricultural assets than what the beginning
26 farmer can be expected to adequately manage; and the
27 agricultural assets cannot be leased or rented at a rate
28 substantially different from similar market arrangements.

29 The bill provides that an agreement may be terminated but
30 also provides that if the termination is the fault of the
31 owner, any tax credits must be repaid and no further tax
32 credit certificates can be issued to the taxpayer.

33 The bill takes effect on January 1, 2006, and applies to
34 tax years beginning on or after that date.

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 869 - Farm Land Sales to Beginners (LSB 1803 HZ)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New

Description

House File 869 provides an Iowa income tax credit for owners of agricultural assets who help beginning farmers to acquire agricultural property by lease or rental arrangements. The Iowa Agricultural Development Authority will administer the program and tax credits. The tax credit is available for tax years beginning on or after January 1, 2006.

Assumptions

1. The average tax credit will equal \$1,700 per year per arrangement.
2. Due to tax liability constraints, only 82.0% of tax credits earned will be redeemed.
3. There will be 100 arrangements in 2005, and that number will grow to 350 by 2010. After that, new arrangements each year will equal the number of arrangements expiring.

Fiscal Impact

The tax credits in HF 869 are projected to reduce net General Fund revenue by:

- FY 2006: \$ 70,000
- FY 2007: \$170,000
- FY 2008: \$240,000
- FY 2009: \$310,000
- FY 2010: \$380,000
- FY 2011: \$450,000
- FY 2012: \$490,000

In future fiscal years, the impact should be similar to FY 2012. The tax credit will also have a minor negative impact on local option income surtax receipts for schools.

Administrative costs of the program are estimated to be \$32,000 per year. The Iowa Agricultural Development Authority is financed through fees and other revenue associated with various Authority programs.

Source

Iowa Agricultural Development Authority

/s/ Holly M. Lyons

April 20, 2005

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

S-3205

1 Amend House File 869, as passed by the House, as
2 follows:

3 1. Page 1, lines 6 and 7, by striking the words
4 "AGRICULTURAL ASSETS -- TAX CREDIT" and inserting the
5 following: "AGRICULTURAL ASSETS TRANSFER TAX CREDIT".

6 2. Page 1, by striking lines 8 and 9, and
7 inserting the following:

8 "____. An agricultural assets transfer tax credit
9 is allowed under this section. The tax credit is
10 allowed against the taxes imposed in chapter 422,
11 division II, as provided in section 422.11I, and in
12 chapter 422, division III, as provided in section
13 422.33, to facilitate the transfer of".

14 3. Page 1, line 11, by striking the word "a."

15 4. Page 1, by striking lines 21 through 23.

16 5. Page 2, by striking lines 16 through 18, and
17 inserting the following:

18 "6. a. In order to qualify for the tax credit as
19 a beginning farmer, a person must be eligible to
20 receive financial assistance under section 175.12.
21 The taxpayer may claim the tax credit on the gross
22 amount paid to the taxpayer as provided in this
23 section until the beginning farmer is no longer
24 eligible to receive financial assistance under section
25 175.12.

26 b. A tax credit in excess of the".

27 6. Page 2, line 26, by striking the figure "6."
28 and inserting the following: "7."

29 7. Page 3, line 25, by striking the figure "7."
30 and inserting the following: "8."

31 8. Page 3, line 30, by striking the figure "8."
32 and inserting the following: "9."

33 9. Page 4, by inserting after line 14, the
34 following:

35 "Sec. _____. NEW SECTION. 422.11I AGRICULTURAL
36 ASSETS TRANSFERRED TO BEGINNING FARMERS.

37 The taxes imposed under this division, less the
38 credits allowed under sections 422.12 and 422.12B,
39 shall be reduced by an agricultural assets transfer
40 tax credit as allowed under section 175.37.

41 Sec. _____. Section 422.33, Code 2005, is amended by
42 adding the following new subsection:

43 NEW SUBSECTION. 17. The taxes imposed under this
44 division shall be reduced by an agricultural assets
45 transfer tax credit as allowed under section 175.37."

By JAMES HAHN

S-3205 FILED APRIL 28, 2005

ADOPTED

**SENATE AMENDMENT TO
HOUSE FILE 869**

H-1594

1 Amend House File 869, as passed by the House, as
2 follows:
3 1. Page 1, lines 6 and 7, by striking the words
4 "AGRICULTURAL ASSETS -- TAX CREDIT" and inserting the
5 following: "AGRICULTURAL ASSETS TRANSFER TAX CREDIT".
6 2. Page 1, by striking lines 8 and 9, and
7 inserting the following:
8 "____. An agricultural assets transfer tax credit
9 is allowed under this section. The tax credit is
10 allowed against the taxes imposed in chapter 422,
11 division II, as provided in section 422.11I, and in
12 chapter 422, division III, as provided in section
13 422.33, to facilitate the transfer of".
14 3. Page 1, line 11, by striking the word "a."
15 4. Page 1, by striking lines 21 through 23.
16 5. Page 2, by striking lines 16 through 18, and
17 inserting the following:
18 "6. a. In order to qualify for the tax credit as
19 a beginning farmer, a person must be eligible to
20 receive financial assistance under section 175.12.
21 The taxpayer may claim the tax credit on the gross
22 amount paid to the taxpayer as provided in this
23 section until the beginning farmer is no longer
24 eligible to receive financial assistance under section
25 175.12.
26 b. A tax credit in excess of the".
27 6. Page 2, line 26, by striking the figure "6."
28 and inserting the following: "7."
29 7. Page 3, line 25, by striking the figure "7."
30 and inserting the following: "8."
31 8. Page 3, line 30, by striking the figure "8."
32 and inserting the following: "9."
33 9. Page 4, by inserting after line 14, the
34 following:
35 "Sec. _____. NEW SECTION. 422.11I AGRICULTURAL
36 ASSETS TRANSFERRED TO BEGINNING FARMERS.
37 The taxes imposed under this division, less the
38 credits allowed under sections 422.12 and 422.12B,
39 shall be reduced by an agricultural assets transfer
40 tax credit as allowed under section 175.37.
41 Sec. _____. Section 422.33, Code 2005, is amended by
42 adding the following new subsection:
43 NEW SUBSECTION. 17. The taxes imposed under this
44 division shall be reduced by an agricultural assets
45 transfer tax credit as allowed under section 175.37."

RECEIVED FROM THE SENATE

H-1594 FILED APRIL 28, 2005

HOUSE FILE 869

H-1611

1 Amend the Senate amendment, H-1594, to House File
2 869, as passed by the House, as follows:

3 1. Page 1, line 18, by striking the words "for
4 the tax credit".

5 2. Page 1, by inserting after line 45, the
6 following:

7 "____. Page 4, by striking lines 15 through 17,
8 and inserting the following:

9 "Sec. _____. Section 423.3, subsection 11,
10 unnumbered paragraph 1, Code 2005, is amended to read
11 as follows:

12 The sales price exclusive of services of farm
13 machinery and equipment, including auxiliary
14 attachments which improve the performance, safety,
15 operation, or efficiency of the machinery and
16 equipment, and including auger systems, curtains and
17 curtain systems, drip systems, fan and fan systems,
18 shutters, inlets and shutter or inlet systems, and
19 refrigerators, and replacement parts, if all of the
20 following conditions are met:

21 Sec. _____. REFUNDS. Refunds of taxes, interest, or
22 penalties which arise from claims resulting from the
23 amendment of section 423.3, subsection 11, in this
24 Act, for the exemption of sales of auger systems,
25 curtains and curtain systems, drip systems, fan and
26 fan systems, shutters, inlets and shutter or inlet
27 systems, and refrigerators occurring between January
28 1, 1992, and the effective date of this Act, shall be
29 limited to twenty-five thousand dollars in the
30 aggregate and shall not be allowed unless refund
31 claims are filed prior to October 1, 2005,
32 notwithstanding any other provision of law. If the
33 amount of claims totals more than twenty-five thousand
34 dollars in the aggregate, the department of revenue
35 shall prorate the twenty-five thousand dollars among
36 all claimants in relation to the amounts of the
37 claimants' valid claims. Claimants shall not be
38 entitled to interest on any refunds.

39 Sec. _____. EFFECTIVE DATES AND RETROACTIVE
40 APPLICABILITY PROVISIONS.

41 1. Except as provided in subsection 2, this Act
42 takes effect January 1, 2006, and is applicable to tax
43 years beginning on or after that date.

44 2. The section of this Act amending section 423.3
45 and the section of this Act providing refunds
46 resulting from the amendment of section 423.3, being
47 deemed of immediate importance, take effect upon
48 enactment and apply retroactively to January 1, 1992."

49 3. Title page, by striking lines 1 through 3, and
50 inserting the following: "An Act relating to

H-1611

H-1611

Page 2

1 financial transactions associated with agricultural
2 production, by providing for taxes, including tax
3 credits and tax exemptions, and including effective
4 and retroactive and other applicability dates."
5 4. By renumbering as necessary.

By DRAKE of Pottawattamie
ALONS of Sioux

H-1611 FILED APRIL 29, 2005

ADOPTED

HOUSE AMENDMENT TO SENATE AMENDMENT TO
HOUSE FILE 869

S-3217

1 Amend the Senate amendment, H-1594, to House File
2 869, as passed by the House, as follows:

3 1. Page 1, line 18, by striking the words "for
4 the tax credit".

5 2. Page 1, by inserting after line 45, the
6 following:

7 "____. Page 4, by striking lines 15 through 17,
8 and inserting the following:

9 "Sec. ____ . Section 423.3, subsection 11,
10 unnumbered paragraph 1, Code 2005, is amended to read
11 as follows:

12 The sales price exclusive of services of farm
13 machinery and equipment, including auxiliary
14 attachments which improve the performance, safety,
15 operation, or efficiency of the machinery and
16 equipment, and including auger systems, curtains and
17 curtain systems, drip systems, fan and fan systems,
18 shutters, inlets and shutter or inlet systems, and
19 refrigerators, and replacement parts, if all of the
20 following conditions are met:

21 Sec. ____ . REFUNDS. Refunds of taxes, interest, or
22 penalties which arise from claims resulting from the
23 amendment of section 423.3, subsection 11, in this
24 Act, for the exemption of sales of auger systems,
25 curtains and curtain systems, drip systems, fan and
26 fan systems, shutters, inlets and shutter or inlet
27 systems, and refrigerators occurring between January
28 1, 1992, and the effective date of this Act, shall be
29 limited to twenty-five thousand dollars in the
30 aggregate and shall not be allowed unless refund
31 claims are filed prior to October 1, 2005,
32 notwithstanding any other provision of law. If the
33 amount of claims totals more than twenty-five thousand
34 dollars in the aggregate, the department of revenue
35 shall prorate the twenty-five thousand dollars among
36 all claimants in relation to the amounts of the
37 claimants' valid claims. Claimants shall not be
38 entitled to interest on any refunds.

39 Sec. ____ . EFFECTIVE DATES AND RETROACTIVE
40 APPLICABILITY PROVISIONS.

41 1. Except as provided in subsection 2, this Act
42 takes effect January 1, 2006, and is applicable to tax
43 years beginning on or after that date.

44 2. The section of this Act amending section 423.3
45 and the section of this Act providing refunds
46 resulting from the amendment of section 423.3, being
47 deemed of immediate importance, take effect upon
48 enactment and apply retroactively to January 1, 1992."

49 3. Title page, by striking lines 1 through 3, and
50 inserting the following: "An Act relating to

S-3217

S-3217

Page 2

1 financial transactions associated with agricultural
2 production, by providing for taxes, including tax
3 credits and tax exemptions, and including effective
4 and retroactive and other applicability dates.""
5 4. By renumbering as necessary.

RECEIVED FROM THE HOUSE

S-3217 FILED MAY 2, 2005

June 10, 2005

The Honorable Chester Culver
Secretary of State
State Capitol Building
L O C A L

Dear Mr. Secretary:

I hereby transmit **House File 869**, an Act relating to tax credits provided for purposes of acquiring agricultural assets by beginning farmers and providing effective and applicability dates.

House File 869 provides income tax credits to a farmer that sells or leases land or other agricultural assets to a new farmer. This bill was originally introduced to provide incentives for existing farmers to assist beginning farmers in acquiring land and starting their operations, and I support the original intent of this bill.

However, during the legislative process, another provision was attached to this bill that expands the sales tax exemption for farm machinery and equipment used in livestock production. The Department of Revenue has a number of cases under protest regarding the items contained in this bill, and one of the cases is currently pending before the Iowa Supreme Court. At this time, approval of House File 869 would not be appropriate because the Supreme Court has yet to issue a ruling on the matter of the sales tax exemption.

I am unable to approve House File 869 due to the inclusion of Sections 5 - 7. I encourage legislators to pass a bill during the next legislative session that meets the original intent of House File 869 by providing an incentive to assist beginning farmers and is consistent with the decision ultimately reached by the Iowa Supreme Court on this issue.

For the above reasons, I respectfully disapprove **House File 869**.

Sincerely,

Thomas J. Vilsack
Governor

TJV:jmc

cc: Secretary of the Senate
Chief Clerk of the House

HOUSE FILE 869

AN ACT

RELATING TO FINANCIAL TRANSACTIONS ASSOCIATED WITH
AGRICULTURAL PRODUCTION, BY PROVIDING FOR TAXES, INCLUDING
TAX CREDITS AND TAX EXEMPTIONS, AND INCLUDING EFFECTIVE AND
RETROACTIVE AND OTHER APPLICABILITY DATES.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section 175.2, Code 2005, is amended by adding the following new subsection:

NEW SUBSECTION. 0A. "Agricultural assets" means agricultural land, depreciable agricultural property, crops, or livestock.

Sec. 2. NEW SECTION. 175.37 AGRICULTURAL ASSETS TRANSFER TAX CREDIT.

1. An agricultural assets transfer tax credit is allowed under this section. The tax credit is allowed against the taxes imposed in chapter 422, division II, as provided in section 422.11I, and in chapter 422, division III, as provided in section 422.33, to facilitate the transfer of agricultural assets from a taxpayer to a beginning farmer.

2. In order to qualify for the tax credit, the taxpayer must meet qualifications established by rules adopted by the authority. At a minimum, the taxpayer must be a person who may acquire or otherwise obtain or lease agricultural land in this state pursuant to chapter 9H or 9I. However, the taxpayer must not be a person who may acquire or otherwise obtain or lease agricultural land exclusively because of an exception provided in one of those chapters or in a provision of another chapter of this Code including but not limited to chapter 10 or 10C, or sections 15.331B or 15E.207.

3. An individual may claim a tax credit under this section of a partnership, limited liability company, S corporation, estate, or trust electing to have income taxed directly to the individual. The amount claimed by the individual shall be based upon the pro rata share of the individual's earnings from the partnership, limited liability company, S corporation, estate, or trust.

4. The tax credit is allowed only for agricultural assets that are subject to a lease or rental agreement. The agreement may be made on a cash basis or on a commodity share basis which includes a share of the crops or livestock produced on the agricultural land. The agreement must be in writing. The lease must be for a term of at least two years. The lease may be renewed for a term of at least two years. The taxpayer may claim the tax credit under the renewal lease in the same manner as the original lease. A lease does not include a lease intended as a security.

5. The tax credit shall be calculated based on the gross amount paid to the taxpayer under the lease or rental agreement.

a. Except as provided in paragraph "b", the tax credit shall equal five percent of the amount paid to the taxpayer under the agreement.

b. The tax credit shall equal fifteen percent of the amount paid to the taxpayer from crops or animals sold under an agreement in which the payment is exclusively made from the sale of crops or animals.

6. a. In order to qualify as a beginning farmer, a person must be eligible to receive financial assistance under section 175.12. The taxpayer may claim the tax credit on the gross amount paid to the taxpayer as provided in this section until the beginning farmer is no longer eligible to receive financial assistance under section 175.12.

b. A tax 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. A tax credit shall not be carried back to a tax year prior to the tax year in which the taxpayer redeems the tax credit. A tax credit shall not be transferable to any other person other than the taxpayer's estate or trust upon the taxpayer's death.

7. A taxpayer shall not claim a tax credit under this section unless a tax credit certificate issued by the authority is attached to the taxpayer's tax return for the tax year for which the tax credit is claimed. The authority must review and approve an application for a tax credit as provided by rules adopted by the authority. The application must include a copy of the lease or rental agreement. The authority may approve an application and issue a tax credit certificate to a taxpayer who has previously been allowed a tax credit under this section. However, the authority shall not approve an application or issue a certificate to a taxpayer if any of the following applies:

a. The taxpayer is at fault for terminating a prior lease or rental agreement subject to this section as determined by the authority.

b. The taxpayer is any of the following:

(1) A party to a pending administrative or judicial action, including a contested case proceeding under chapter 17A, relating to an alleged violation involving an animal feeding operation as regulated by the department of natural resources, regardless of whether the pending action is brought by the department or the attorney general.

(2) Classified as a habitual violator for a violation of state law involving an animal feeding operation as regulated by the department of natural resources.

c. The beginning farmer is responsible for managing or maintaining agricultural land and other agricultural assets that are greater than necessary in order to adequately support a beginning farmer as determined by the authority according to rules which shall be adopted by the authority.

d. The agricultural assets are being leased or rented at a rate which is substantially higher or lower than the market rate for similar agricultural assets leased or rented within the same community, as determined by the authority.

8. The authority shall review each existing lease or rental agreement which is part of an application approved by the authority on a quarterly basis. The authority may require that the taxpayer and the beginning farmer provide additional information as determined relevant by the authority.

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

a. 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 a subsequent tax year based on the approved application. Any prior tax credit is allowed as provided in this section. The taxpayer may apply for and be issued another tax credit certificate for the same agricultural assets as provided in this section for any remaining tax years for which a certificate was not issued.

b. If the authority determines that the taxpayer is at fault for the termination, any prior tax credit allowed under this section is disallowed. The tax credit shall be recaptured and the amount of the tax credit shall be immediately due and payable to the department of revenue. If a taxpayer does not immediately notify the authority of the termination, the taxpayer shall be conclusively deemed at fault for the termination.

Sec. 3. NEW SECTION. 422.11I AGRICULTURAL ASSETS TRANSFERRED TO BEGINNING FARMERS.

The taxes imposed under this division, less the credits allowed under sections 422.12 and 422.12B, shall be reduced by an agricultural assets transfer tax credit as allowed under section 175.37.

Sec. 4. Section 422.33, Code 2005, is amended by adding the following new subsection:

NEW SUBSECTION. 17. The taxes imposed under this division shall be reduced by an agricultural assets transfer tax credit as allowed under section 175.37.

Sec. 5. Section 423.3, subsection 11, unnumbered paragraph 1, Code 2005, is amended to read as follows:

The sales price exclusive of services of farm machinery and equipment, including auxiliary attachments which improve the performance, safety, operation, or efficiency of the machinery and equipment, and including auger systems, curtains and curtain systems, drip systems, fan and fan systems, shutters, inlets and shutter or inlet systems, and refrigerators, and replacement parts, if all of the following conditions are met:

Sec. 6. REFUNDS. Refunds of taxes, interest, or penalties which arise from claims resulting from the amendment of section 423.3, subsection 11, in this Act, for the exemption of sales of auger systems, curtains and curtain systems, drip systems, fan and fan systems, shutters, inlets and shutter or inlet systems, and refrigerators occurring between January 1, 1992, and the effective date of this Act, shall be limited to twenty-five thousand dollars in the aggregate and shall not be allowed unless refund claims are filed prior to October 1, 2005, notwithstanding any other provision of law. If the amount of claims totals more than twenty-five thousand dollars in the aggregate, the department of revenue shall prorate the twenty-five thousand dollars among all claimants in relation to the amounts of the claimants' valid claims. Claimants shall not be entitled to interest on any refunds.

Sec. 7. EFFECTIVE DATES AND RETROACTIVE APPLICABILITY PROVISIONS.

1. Except as provided in subsection 2, this Act takes effect January 1, 2006, and is applicable to tax years beginning on or after that date.

2. The section of this Act amending section 423.3 and the section of this Act providing refunds resulting from the amendment of section 423.3, being deemed of immediate importance, take effect upon enactment and apply retroactively to January 1, 1992.

CHRISTOPHER C. RANTS
Speaker of the House

JOHN P. KIBBIE
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 869, Eighty-first General Assembly.

MARGARET THOMSON
Chief Clerk of the House

VETOED
Approved 6/10, 2005

THOMAS J. VILSACK
Governor