

FILED FEB 23 2006

SENATE FILE 2268
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 3125)

Passed Senate, Date 3-1-06

Passed House, Date 4-5-06

Vote: Ayes 47 Nays 3

Vote: Ayes 70 Nays 29

Repassed 5-3-06 47-2 Approved _____

A BILL FOR

1 An Act relating to financial transactions associated with
2 agricultural production, by providing for tax credits and tax
3 exemptions, and including effective and retroactive and other
4 applicability dates.

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

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SF 2268

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 TRANSFER
7 TAX CREDIT.

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

14 2. In order to qualify for the tax credit, the taxpayer
15 must meet qualifications established by rules adopted by the
16 authority. At a minimum, the taxpayer must be a person who
17 may acquire or otherwise obtain or lease agricultural land in
18 this state pursuant to chapter 9H or 9I. However, the
19 taxpayer must not be a person who may acquire or otherwise
20 obtain or lease agricultural land exclusively because of an
21 exception provided in one of those chapters or in a provision
22 of another chapter of this Code including but not limited to
23 chapter 10, 10C, 10D, or 501, or section 15E.207.

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

22 b. A tax credit in excess of the taxpayer's liability for
23 the tax year may be credited to the tax liability for the
24 following five years or until depleted, whichever is earlier.
25 A tax credit shall not be carried back to a tax year prior to
26 the tax year in which the taxpayer redeems the tax credit. A
27 tax credit shall not be transferable to any other person other
28 than the taxpayer's estate or trust upon the taxpayer's death.

29 7. A taxpayer shall not claim a tax credit under this
30 section unless a tax credit certificate issued by the
31 authority is attached to the taxpayer's tax return for the tax
32 year for which the tax credit is claimed. The authority must
33 review and approve an application for a tax credit as provided
34 by rules adopted by the authority. The application must
35 include a copy of the lease or rental agreement. The

1 authority may approve an application and issue a tax credit
2 certificate to a taxpayer who has previously been allowed a
3 tax credit under this section. However, the authority shall
4 not approve an application or issue a certificate to a
5 taxpayer if any of the following applies:

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

9 b. The taxpayer is any of the following:

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

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

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

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

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

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

1 the termination.

2 a. If the authority determines that the taxpayer is not at
3 fault for the termination, the authority shall not issue a tax
4 certificate to the taxpayer for a subsequent tax year based on
5 the approved application. Any prior tax credit is allowed as
6 provided in this section. The taxpayer may apply for and be
7 issued another tax credit certificate for the same
8 agricultural assets as provided in this section for any
9 remaining tax years for which a certificate was not issued.

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

18 Sec. 3. NEW SECTION. 422.11M AGRICULTURAL ASSETS
19 TRANSFERRED TO BEGINNING FARMERS.

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

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

26 NEW SUBSECTION. 20. The taxes imposed under this division
27 shall be reduced by an agricultural assets transfer tax credit
28 as allowed under section 175.37.

29 Sec. 5. Section 423.3, subsection 11, unnumbered paragraph
30 1, Code Supplement 2005, is amended to read as follows:

31 The sales price exclusive of services of farm machinery and
32 equipment, including auxiliary attachments which improve the
33 performance, safety, operation, or efficiency of the machinery
34 and equipment, and including auger systems, curtains and
35 curtain systems, drip systems, fan and fan systems, shutters,

1 inlets and shutter or inlet systems, and refrigerators, and
2 replacement parts, if all of the following conditions are met:
3 Sec. 6. REFUNDS. Refunds of taxes, interest, or penalties
4 which arise from claims resulting from the amendment of
5 section 423.3, subsection 11, in this Act, for the exemption
6 of sales of auger systems, curtains and curtain systems, drip
7 systems, fan and fan systems, shutters, inlets and shutter or
8 inlet systems, and refrigerators occurring between January 1,
9 1992, and the effective date of this section of this Act,
10 shall be limited to twenty-five thousand dollars in the
11 aggregate and shall not be allowed unless refund claims are
12 filed prior to October 1, 2006, notwithstanding any other
13 provision of law. If the amount of claims totals more than
14 twenty-five thousand dollars in the aggregate, the department
15 of revenue shall prorate the twenty-five thousand dollars
16 among all claimants in relation to the amounts of the
17 claimants' valid claims. Claimants shall not be entitled to
18 interest on any refunds.

19 Sec. 7. EFFECTIVE DATES AND RETROACTIVE APPLICABILITY
20 PROVISIONS.

21 1. Except as provided in subsection 2, this Act takes
22 effect January 1, 2007, and is applicable to tax years
23 beginning on or after that date.

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

29 EXPLANATION

30 This bill provides tax incentives associated with
31 agricultural production. The bill establishes a tax credit to
32 assist beginning farmers and provides a sales tax exemption on
33 certain farm machinery and equipment.

34 BEGINNING FARMERS -- AGRICULTURAL ASSETS TRANSFER TAX
35 CREDIT. The bill amends provisions in Code chapter 175, which

1 establishes the agricultural development authority
2 (authority), by providing a tax credit for an owner of
3 agricultural assets including agricultural land, depreciable
4 agricultural property, crops, or livestock, who transfers
5 those agricultural assets to a beginning farmer by lease or
6 rental agreement.

7 The authority is an instrumentality housed in the office of
8 treasurer of state that is responsible for administering a
9 number of programs to assist agricultural producers, including
10 the beginning farmer program. A beginning farmer is an
11 individual, partnership, family farm corporation, or family
12 farm limited liability company as provided under Code chapter
13 9H (Iowa's corporate farming law), with a low or moderate net
14 worth who engages in farming or wishes to engage in farming.

15 The bill provides that the amount of the tax credit equals
16 5 percent of the amount paid to the owner under the agreement.
17 However, if the agreement is based on a commodity share
18 arrangement for either crops or livestock, the tax credit may
19 equal 15 percent of the amount paid to the owner from the sale
20 of the crops or animals.

21 The bill places a number of restrictions upon the authority
22 in approving applications and issuing certificates. The owner
23 must be a person who may acquire or otherwise obtain or lease
24 agricultural land in the state under Code chapter 9H or 9I
25 (restricting foreign ownership of agricultural land). In
26 addition, the owner cannot acquire or otherwise obtain or
27 lease agricultural land exclusively because of an exception
28 provided in one of those Code chapters, e.g., an encumbrance
29 taken for purposes of security. A person also cannot hold
30 land based on an exception in other Code provisions, including
31 Code chapter 10 (corporate networking entities), Code chapter
32 10C (life science enterprises), Code chapter 10D (qualified
33 enterprises), and Code chapter 501 (closed cooperatives), as
34 well as Code section 15E.207 (an Iowa agricultural industry
35 finance corporation). The owner cannot be at fault for

1 terminating a prior lease, the owner cannot have been involved
2 in legal proceedings regarding an environmental violation, the
3 beginning farmer could not have been provided more
4 agricultural assets than what the beginning farmer could have
5 been expected to adequately manage, and the agricultural
6 assets cannot be leased or rented at a rate substantially
7 different from similar market arrangements.

8 This part of the bill takes effect January 1, 2007, and is
9 applicable to tax years beginning on or after that date.

10 SALES TAX EXEMPTION -- FARM MACHINERY AND EQUIPMENT. The
11 bill also amends Code section 423.3, which provides exemptions
12 from the state's sales tax, including farm machinery and
13 equipment associated with crop production, animal agriculture,
14 or horticulture. The bill extends the type of farm machinery
15 and equipment eligible for the exemption by including auger
16 systems, fan systems, and refrigerators.

17 This part of the bill takes effect upon enactment and
18 applies retroactively to January 1, 1992. It limits the
19 amount that may be refunded to a person who paid the sales tax
20 on and after that date to \$25,000.

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 2268 - Farm Land Asset Tax Credit (LSB 5135 SV)

Analyst: Jeff Robinson (Phone: [515] 281-4614) (jeff.robinson@legis.state.ia.us)

Fiscal Note Version – New

Description

Senate File 2268 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, 2007.

The Bill also exempts from the sales and use taxes, a variety of farm machinery and equipment, all of which can be used for livestock production. In addition, the Bill provides for the refund of sales and use taxes paid on qualifying equipment purchases retroactive to January 1, 1992. The total amount of retroactive refunds is limited to \$25,000.

Assumptions

1. The average income tax credit will equal \$1,700 per year per arrangement.
2. Due to tax liability constraints, only 85.0% of tax credits earned will be redeemed.
3. There will be 100 arrangements in 2006, and that number will grow to 350 by 2012. After that, new arrangements each year will equal the number of arrangements expiring.
4. The annual volume of farm purchases exempted under the sales tax exemption portion of the Bill is \$26.7 million. The State sales tax rate is 5.0% and the average local option sales tax rate is 1.2%.

Fiscal Impact

The sales tax exemption portion of the Bill is projected to reduce net General Fund sales tax revenue by \$1.3 million per year and local option sales tax revenue by \$320,000 per year, beginning in FY 2007

The income tax credits portion of the Bill is projected to reduce net General Fund revenue by:

- FY 2007: \$ 70,000
- FY 2008: \$180,000
- FY 2009: \$250,000
- FY 2010: \$330,000
- FY 2011: \$400,000
- FY 2012: \$470,000
- FY 2013: \$510,000

In future fiscal years, the impact should be similar to FY 2013. 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
Department of Revenue
US Census Bureau (Farm Equipment Sales)

/s/ Holly M. Lyons

March 20, 2006

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.

SENATE FILE 2268

H-8499

1 Amend Senate File 2268, as passed by the Senate as
2 follows:

3 1. By striking page 1, line 1, by through page 4,
4 line 28, and inserting the following:

5 "Sec. ____ Section 175.2, Code 2005, is amended by
6 adding the following new subsection:

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

10 Sec. ____ NEW SECTION. 175.37 AGRICULTURAL
11 ASSETS TRANSFER TAX CREDIT -- AGREEMENT.

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

19 2. In order to qualify for the tax credit, the
20 taxpayer must meet qualifications established by rules
21 adopted by the authority. At a minimum, the taxpayer
22 must comply with all of the following:

23 a. Be a person who may acquire or otherwise obtain
24 or lease agricultural land in this state pursuant to
25 chapter 9H or 9I. However, the taxpayer must not be a
26 person who may acquire or otherwise obtain or lease
27 agricultural land exclusively because of an exception
28 provided in one of those chapters or in a provision of
29 another chapter of this Code including but not limited
30 to chapter 10, 10C, 10D, or 501, or section 15E.207.

31 b. Execute an agricultural assets transfer
32 agreement with a beginning farmer as provided in this
33 section.

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

42 4. The tax credit is allowed only for agricultural
43 assets that are subject to an agricultural assets
44 transfer agreement. The agreement shall provide for
45 the lease of agricultural land including any
46 improvements and may provide for the rental of
47 agricultural equipment as defined in section 322F.1.

48 a. The agreement may be made on a cash basis or on
49 a commodity share basis which includes a share of the
50 crops or livestock produced on the agricultural land.

H-8499

1 The agreement must be in writing.

2 b. The agreement shall be for at least two years,
3 but not more than five years. The agreement or that
4 part of the agreement providing for the lease may be
5 renewed by the beginning farmer for a term of at least
6 two years, but not more than five years. An agreement
7 does not include a lease or the rental of equipment
8 intended as a security.

9 5. The tax credit shall be calculated based on the
10 gross amount paid to the taxpayer under the
11 agricultural assets transfer agreement.

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

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

19 6. In order to qualify as a beginning farmer, a
20 person must be eligible to receive financial
21 assistance under section 175.12.

22 7. A tax credit in excess of the taxpayer's
23 liability for the tax year may be credited to the tax
24 liability for the following five years or until
25 depleted, whichever is earlier. A tax credit shall
26 not be carried back to a tax year prior to the tax
27 year in which the taxpayer redeems the tax credit. A
28 tax credit shall not be transferable to any other
29 person other than the taxpayer's estate or trust upon
30 the taxpayer's death.

31 8. A taxpayer shall not claim a tax credit under
32 this section unless a tax credit certificate issued by
33 the authority is attached to the taxpayer's tax return
34 for the tax year for which the tax credit is claimed.
35 The authority must review and approve an application
36 for a tax credit as provided by rules adopted by the
37 authority. The application must include a copy of the
38 agricultural assets transfer agreement. The authority
39 may approve an application and issue a tax credit
40 certificate to a taxpayer who has previously been
41 allowed a tax credit under this section. The
42 authority may require that the parties to an
43 agricultural assets transfer agreement provide
44 additional information as determined relevant by the
45 authority. The authority shall review an application
46 for a tax credit which includes the renewal of an
47 agricultural assets transfer agreement to determine
48 that the parties to the renewed agreement meet the
49 same qualifications as required for an original
50 application. However, the authority shall not approve

H-8499

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1 the taxpayer shall be conclusively deemed at fault for
2 the termination.

3 Sec. ____ . NEW SECTION. 422.11M AGRICULTURAL
4 ASSETS TRANSFERRED TO BEGINNING FARMERS.

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

9 Sec. ____ . Section 422.33, Code Supplement 2005, is
10 amended by adding the following new subsection:

11 NEW SUBSECTION. 20. The taxes imposed under this
12 division shall be reduced by an agricultural assets
13 transfer tax credit as allowed under section 175.37."

By DRAKE of Pottawattamie
MERTZ of Kossuth

H-8499 FILED APRIL 4, 2006

SENATE FILE 2268

H-8503

1 Amend Senate File 2268, as passed by the Senate, as
2 follows:

3 1. By striking page 4, line 29, through page 5,
4 line 28, and inserting the following:

5 "Sec. ____ . EFFECTIVE DATE AND RETROACTIVE
6 APPLICABILITY PROVISIONS. This Act takes effect
7 January 1, 2007, and is applicable to tax years
8 beginning on or after that date."

9 2. Title page, by striking lines 2 through 4, and
10 inserting the following: "agricultural production, by
11 providing for a tax credit to facilitate the transfer
12 of assets, and including an effective and
13 applicability date."

14 3. By renumbering as necessary.

By FREVERT of Palo Alto
KUHN of Floyd
SWAIM of Davis

H-8503 FILED APRIL 5, 2006

1 an application or issue a certificate to a taxpayer if
2 any of the following applies:

3 a. The taxpayer is at fault for terminating a
4 prior agricultural assets transfer agreement as
5 determined by the authority.

6 b. The taxpayer is any of the following:

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

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

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

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

29 9. A taxpayer or the beginning farmer may
30 terminate an agricultural assets transfer agreement as
31 provided in the agreement or by law. The taxpayer
32 must immediately notify the authority of the
33 termination.

34 a. If the authority determines that the taxpayer
35 is not at fault for the termination, the authority
36 shall not issue a tax certificate to the taxpayer for
37 a subsequent tax year based on the approved
38 application. Any prior tax credit is allowed as
39 provided in this section. The taxpayer may apply for
40 and be issued another tax credit certificate for the
41 same agricultural assets as provided in this section
42 for any remaining tax years for which a certificate
43 was not issued.

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

HOUSE AMENDMENT TO
SENATE FILE 2268

S-5200

1 Amend Senate File 2268, as passed by the Senate as
2 follows:

3 1. By striking page 1, line 1, by through page 4,
4 line 28, and inserting the following:

5 "Sec. ____ . Section 175.2, Code 2005, is amended by
6 adding the following new subsection:

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

10 Sec. ____ . NEW SECTION. 175.37 AGRICULTURAL
11 ASSETS TRANSFER TAX CREDIT -- AGREEMENT.

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

19 2. In order to qualify for the tax credit, the
20 taxpayer must meet qualifications established by rules
21 adopted by the authority. At a minimum, the taxpayer
22 must comply with all of the following:

23 a. Be a person who may acquire or otherwise obtain
24 or lease agricultural land in this state pursuant to
25 chapter 9H or 9I. However, the taxpayer must not be a
26 person who may acquire or otherwise obtain or lease
27 agricultural land exclusively because of an exception
28 provided in one of those chapters or in a provision of
29 another chapter of this Code including but not limited
30 to chapter 10, 10C, 10D, or 501, or section 15E.207.

31 b. Execute an agricultural assets transfer
32 agreement with a beginning farmer as provided in this
33 section.

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

42 4. The tax credit is allowed only for agricultural
43 assets that are subject to an agricultural assets
44 transfer agreement. The agreement shall provide for
45 the lease of agricultural land including any
46 improvements and may provide for the rental of
47 agricultural equipment as defined in section 322F.1.

48 a. The agreement may be made on a cash basis or on
49 a commodity share basis which includes a share of the
50 crops or livestock produced on the agricultural land.

S-5200

1 The agreement must be in writing.

2 b. The agreement shall be for at least two years,
3 but not more than five years. The agreement or that
4 part of the agreement providing for the lease may be
5 renewed by the beginning farmer for a term of at least
6 two years, but not more than five years. An agreement
7 does not include a lease or the rental of equipment
8 intended as a security.

9 5. The tax credit shall be calculated based on the
10 gross amount paid to the taxpayer under the
11 agricultural assets transfer agreement.

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

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

19 6. In order to qualify as a beginning farmer, a
20 person must be eligible to receive financial
21 assistance under section 175.12.

22 7. A tax credit in excess of the taxpayer's
23 liability for the tax year may be credited to the tax
24 liability for the following five years or until
25 depleted, whichever is earlier. A tax credit shall
26 not be carried back to a tax year prior to the tax
27 year in which the taxpayer redeems the tax credit. A
28 tax credit shall not be transferable to any other
29 person other than the taxpayer's estate or trust upon
30 the taxpayer's death.

31 8. A taxpayer shall not claim a tax credit under
32 this section unless a tax credit certificate issued by
33 the authority is attached to the taxpayer's tax return
34 for the tax year for which the tax credit is claimed.
35 The authority must review and approve an application
36 for a tax credit as provided by rules adopted by the
37 authority. The application must include a copy of the
38 agricultural assets transfer agreement. The authority
39 may approve an application and issue a tax credit
40 certificate to a taxpayer who has previously been
41 allowed a tax credit under this section. The
42 authority may require that the parties to an
43 agricultural assets transfer agreement provide
44 additional information as determined relevant by the
45 authority. The authority shall review an application
46 for a tax credit which includes the renewal of an
47 agricultural assets transfer agreement to determine
48 that the parties to the renewed agreement meet the
49 same qualifications as required for an original
50 application. However, the authority shall not approve

1 an application or issue a certificate to a taxpayer if
2 any of the following applies:

3 a. The taxpayer is at fault for terminating a
4 prior agricultural assets transfer agreement as
5 determined by the authority.

6 b. The taxpayer is any of the following:

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

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

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

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

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36 shall not issue a tax certificate to the taxpayer for
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41 same agricultural assets as provided in this section
42 for any remaining tax years for which a certificate
43 was not issued.

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

1 the taxpayer shall be conclusively deemed at fault for
2 the termination.

3 Sec. ____ . NEW SECTION. 422.11M AGRICULTURAL
4 ASSETS TRANSFERRED TO BEGINNING FARMERS.

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

9 Sec. ____ . Section 422.33, Code Supplement 2005, is
10 amended by adding the following new subsection:

11 NEW SUBSECTION. 20. The taxes imposed under this
12 division shall be reduced by an agricultural assets
13 transfer tax credit as allowed under section 175.37."

RECEIVED FROM THE HOUSE

Ziemann co-chair
Stewart co-chair
Hahn
Bolkcom

SSB# 3125

Ways & Means

Succeeded By
SF / HF 2268

SENATE FILE
BY (PROPOSED COMMITTEE ON WAYS
AND MEANS BILL BY
CO-CHAIRPERSON ZIEMAN)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to financial transactions associated with
2 agricultural production, by providing for tax credits and tax
3 exemptions, and including effective and retroactive and other
4 applicability dates.

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

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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 TRANSFER
7 TAX CREDIT.

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

14 2. In order to qualify for the tax credit, the taxpayer
15 must meet qualifications established by rules adopted by the
16 authority. At a minimum, the taxpayer must be a person who
17 may acquire or otherwise obtain or lease agricultural land in
18 this state pursuant to chapter 9H or 9I. However, the
19 taxpayer must not be a person who may acquire or otherwise
20 obtain or lease agricultural land exclusively because of an
21 exception provided in one of those chapters or in a provision
22 of another chapter of this Code including but not limited to
23 chapter 10, 10C, 10D, or 501, or section 15E.207.

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

22 b. A tax credit in excess of the taxpayer's liability for
23 the tax year may be credited to the tax liability for the
24 following five years or until depleted, whichever is earlier.
25 A tax credit shall not be carried back to a tax year prior to
26 the tax year in which the taxpayer redeems the tax credit. A
27 tax credit shall not be transferable to any other person other
28 than the taxpayer's estate or trust upon the taxpayer's death.

29 7. A taxpayer shall not claim a tax credit under this
30 section unless a tax credit certificate issued by the
31 authority is attached to the taxpayer's tax return for the tax
32 year for which the tax credit is claimed. The authority must
33 review and approve an application for a tax credit as provided
34 by rules adopted by the authority. The application must
35 include a copy of the lease or rental agreement. The

1 authority may approve an application and issue a tax credit
2 certificate to a taxpayer who has previously been allowed a
3 tax credit under this section. However, the authority shall
4 not approve an application or issue a certificate to a
5 taxpayer if any of the following applies:

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

9 b. The taxpayer is any of the following:

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

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

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

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

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

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

1 the termination.

2 a. If the authority determines that the taxpayer is not at
3 fault for the termination, the authority shall not issue a tax
4 certificate to the taxpayer for a subsequent tax year based on
5 the approved application. Any prior tax credit is allowed as
6 provided in this section. The taxpayer may apply for and be
7 issued another tax credit certificate for the same
8 agricultural assets as provided in this section for any
9 remaining tax years for which a certificate was not issued.

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

18 Sec. 3. NEW SECTION. 422.11M AGRICULTURAL ASSETS
19 TRANSFERRED TO BEGINNING FARMERS.

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

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

26 NEW SUBSECTION. 20. The taxes imposed under this division
27 shall be reduced by an agricultural assets transfer tax credit
28 as allowed under section 175.37.

29 Sec. 5. Section 423.3, subsection 11, unnumbered paragraph
30 1, Code Supplement 2005, is amended to read as follows:

31 The sales price exclusive of services of farm machinery and
32 equipment, including auxiliary attachments which improve the
33 performance, safety, operation, or efficiency of the machinery
34 and equipment, and including auger systems, curtains and
35 curtain systems, drip systems, fan and fan systems, shutters,

1 establishes the agricultural development authority
2 (authority), by providing a tax credit for an owner of
3 agricultural assets including agricultural land, depreciable
4 agricultural property, crops, or livestock, who transfers
5 those agricultural assets to a beginning farmer by lease or
6 rental agreement.

7 The authority is an instrumentality housed in the office of
8 treasurer of state that is responsible for administering a
9 number of programs to assist agricultural producers, including
10 the beginning farmer program. A beginning farmer is an
11 individual, partnership, family farm corporation, or family
12 farm limited liability company as provided under Code chapter
13 9H (Iowa's corporate farming law), with a low or moderate net
14 worth who engages in farming or wishes to engage in farming.

15 The bill provides that the amount of the tax credit equals
16 5 percent of the amount paid to the owner under the agreement.
17 However, if the agreement is based on a commodity share
18 arrangement for either crops or livestock, the tax credit may
19 equal 15 percent of the amount paid to the owner from the sale
20 of the crops or animals.

21 The bill places a number of restrictions upon the authority
22 in approving applications and issuing certificates. The owner
23 must be a person who may acquire or otherwise obtain or lease
24 agricultural land in the state under Code chapter 9H or 9I
25 (restricting foreign ownership of agricultural land). In
26 addition, the owner cannot acquire or otherwise obtain or
27 lease agricultural land exclusively because of an exception
28 provided in one of those Code chapters, e.g., an encumbrance
29 taken for purposes of security. A person also cannot hold
30 land based on an exception in other Code provisions, including
31 Code chapter 10 (corporate networking entities), Code chapter
32 10C (life science enterprises), Code chapter 10D (qualified
33 enterprises), and Code chapter 501 (closed cooperatives), as
34 well as Code section 15E.207 (an Iowa agricultural industry
35 finance corporation). The owner cannot be at fault for

1 terminating a prior lease, the owner cannot have been involved
2 in legal proceedings regarding an environmental violation, the
3 beginning farmer could not have been provided more
4 agricultural assets than what the beginning farmer could have
5 been expected to adequately manage, and the agricultural
6 assets cannot be leased or rented at a rate substantially
7 different from similar market arrangements.

8 This part of the bill takes effect January 1, 2007, and is
9 applicable to tax years beginning on or after that date.

10 SALES TAX EXEMPTION -- FARM MACHINERY AND EQUIPMENT. The
11 bill also amends Code section 423.3, which provides exemptions
12 from the state's sales tax, including farm machinery and
13 equipment associated with crop production, animal agriculture,
14 or horticulture. The bill extends the type of farm machinery
15 and equipment eligible for the exemption by including auger
16 systems, fan systems, and refrigerators.

17 This part of the bill takes effect upon enactment and
18 applies retroactively to January 1, 1992. It limits the
19 amount that may be refunded to a person who paid the sales tax
20 on and after that date to \$25,000.

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SENATE FILE 2268

AN ACT

RELATING TO FINANCIAL TRANSACTIONS ASSOCIATED WITH AGRICULTURAL PRODUCTION, BY PROVIDING FOR 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 -- AGREEMENT.

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 422.11M, 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 comply with all of the following:

a. 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, 10C, 10D, or 501, or section 15E.207.

b. Execute an agricultural assets transfer agreement with a beginning farmer as provided in this section.

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 an agricultural assets transfer agreement. The agreement shall provide for the lease of agricultural land including any improvements and may provide for the rental of agricultural equipment as defined in section 322F.1.

a. 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.

b. The agreement shall be for at least two years, but not more than five years. The agreement or that part of the agreement providing for the lease may be renewed by the beginning farmer for a term of at least two years, but not more than five years. An agreement does not include a lease or the rental of equipment intended as a security.

5. The tax credit shall be calculated based on the gross amount paid to the taxpayer under the agricultural assets transfer 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. In order to qualify as a beginning farmer, a person must be eligible to receive financial assistance under section 175.12.

7. 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.

8. 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 agricultural assets transfer 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. The authority may require that the parties to an agricultural assets transfer agreement provide additional information as determined relevant by the authority. The authority shall review an application for a tax credit which includes the renewal of an agricultural assets transfer agreement to determine that the parties to the renewed agreement meet the same qualifications as required for an original application. 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 agricultural assets transfer agreement 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 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.

9. A taxpayer or the beginning farmer may terminate an agricultural assets transfer 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. 422.11M 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 Supplement 2005, is amended by adding the following new subsection:

NEW SUBSECTION. 20. 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 Supplement 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 section 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, 2006, 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, 2007, 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.

JEFFREY M. LAMBERTI
President of the Senate

CHRISTOPHER C. RANTS
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 2268, Eighty-first General Assembly.

MICHAEL E. MARSHALL
Secretary of the Senate

Approved _____, 2006

THOMAS J. VILSACK
Governor