Farm Leasing Arrangements

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You spoke and we listened - 63 meetings/2,346 participants

<table>
<thead>
<tr>
<th>Participants</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-farming landowner</td>
<td>49%</td>
</tr>
<tr>
<td>Active Farmer</td>
<td>37%</td>
</tr>
<tr>
<td>Ag Lender</td>
<td>4%</td>
</tr>
<tr>
<td>Professional Farm Manager</td>
<td>2%</td>
</tr>
<tr>
<td>Attorney or Accountant</td>
<td>1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Challenges for the next 5 years</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop Margins / Marketing</td>
<td>35%</td>
</tr>
<tr>
<td>Tenant-landlord Relationships</td>
<td>21%</td>
</tr>
<tr>
<td>Estate Planning / Farm Transitions</td>
<td>11%</td>
</tr>
<tr>
<td>Government Regulations / Farm Bill</td>
<td>8%</td>
</tr>
<tr>
<td>Keeping / Getting Land</td>
<td>7%</td>
</tr>
<tr>
<td>Age / Retirement Income</td>
<td>6%</td>
</tr>
</tbody>
</table>
Agenda

• Trends in
  – Farm land values
  – Cash rental rates
• Costs of crop production
• Negotiating a fair cash lease rate
• 2016 Farm Leasing Arrangements Considerations
  – Landlord liens
  – Agricultural Act of 2014 – follow-up
  – Beginning Farmer Tax Credit

Different Perspectives - Meet Andy and Esther

• Take 5 minutes to read through the cases
• Take another 5 minutes to visit about the cases at your table
• Andy and Esther will be with us for the rest of the program
Different Perspectives

• What additional questions do you have now as Andy or Esther?
• Think about the way the other party interprets and uses information to make decisions.

December 2016
Corn Futures Contract
November 2016
Soybean Futures Contract

2014 Cropland Value by State
- Dollars per acre and percent change from 2013
AgLetter
Federal Reserve Bank of Chicago

Percent change in dollar value of “good” farmland
Top: January 1, 2015 to April 1, 2015
Bottom: April 1, 2014 to April 1, 2015

<table>
<thead>
<tr>
<th>State</th>
<th>Jan 1, 2015 to Apr 1, 2015</th>
<th>Apr 1, 2014 to Apr 1, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Indiana</td>
<td>+1</td>
<td>-1</td>
</tr>
<tr>
<td>Iowa</td>
<td>+2</td>
<td>-6</td>
</tr>
<tr>
<td>Michigan</td>
<td>+5</td>
<td>+5</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>+1</td>
<td>+6</td>
</tr>
<tr>
<td>Seventh District</td>
<td>+1</td>
<td>0</td>
</tr>
</tbody>
</table>

*Insufficient response.

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Realtors Land Institute
March 2015 Survey

Table 1. Survey of farmland values (dollars per acre).
Iowa Farm & Land Chapter #2, REALTORS® Land Institute, March 2015

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Central</td>
<td>$11,139</td>
<td>$10,207</td>
<td>$8,210</td>
<td>$7,654</td>
<td>$5,398</td>
<td>$5,065</td>
<td>$2,748</td>
<td>$2,756</td>
<td>$2,181</td>
<td>$2,236</td>
<td>-7.5%</td>
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<tr>
<td>East Central</td>
<td>11,300</td>
<td>10,425</td>
<td>8,119</td>
<td>7,413</td>
<td>5,281</td>
<td>4,831</td>
<td>2,772</td>
<td>2,673</td>
<td>2,197</td>
<td>2,180</td>
<td>-8.4%</td>
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<tr>
<td>North Central</td>
<td>10,571</td>
<td>9,807</td>
<td>8,380</td>
<td>7,657</td>
<td>5,706</td>
<td>5,189</td>
<td>2,344</td>
<td>2,378</td>
<td>1,945</td>
<td>1,885</td>
<td>-8.1%</td>
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<tr>
<td>Northeast</td>
<td>11,096</td>
<td>9,883</td>
<td>8,266</td>
<td>7,352</td>
<td>5,609</td>
<td>4,968</td>
<td>2,844</td>
<td>2,838</td>
<td>2,385</td>
<td>2,520</td>
<td>-11.0%</td>
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<tr>
<td>Northwest</td>
<td>12,385</td>
<td>11,619</td>
<td>9,373</td>
<td>8,704</td>
<td>6,380</td>
<td>5,013</td>
<td>2,361</td>
<td>2,386</td>
<td>2,019</td>
<td>2,028</td>
<td>-6.0%</td>
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<tr>
<td>South Central</td>
<td>8,267</td>
<td>7,775</td>
<td>6,139</td>
<td>5,631</td>
<td>3,822</td>
<td>3,077</td>
<td>2,450</td>
<td>2,364</td>
<td>2,269</td>
<td>2,419</td>
<td>-7.8%</td>
</tr>
<tr>
<td>Southeast</td>
<td>11,015</td>
<td>10,427</td>
<td>7,485</td>
<td>6,887</td>
<td>4,281</td>
<td>4,192</td>
<td>2,281</td>
<td>2,282</td>
<td>1,993</td>
<td>1,958</td>
<td>-5.6%</td>
</tr>
<tr>
<td>Southwest</td>
<td>9,756</td>
<td>9,267</td>
<td>7,565</td>
<td>7,135</td>
<td>4,972</td>
<td>4,884</td>
<td>3,394</td>
<td>3,400</td>
<td>2,360</td>
<td>2,340</td>
<td>-4.6%</td>
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<tr>
<td>West Central</td>
<td>10,811</td>
<td>9,991</td>
<td>8,826</td>
<td>7,990</td>
<td>5,885</td>
<td>5,305</td>
<td>3,200</td>
<td>3,000</td>
<td>2,538</td>
<td>2,488</td>
<td>-8.8%</td>
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<tr>
<td>State Average</td>
<td>10,701</td>
<td>9,924</td>
<td>8,045</td>
<td>7,375</td>
<td>5,189</td>
<td>4,816</td>
<td>2,770</td>
<td>2,802</td>
<td>2,261</td>
<td>2,284</td>
<td>-7.6%</td>
</tr>
</tbody>
</table>
AVERAGE VALUES
all grades 1950–2014

Statewide Average
$7,943
down -8.9%
down -$773
High Grade Land

$9,854

down -9.0%
down -$974

Medium Grade Land

$7,359

down -8.5%
down -$688
Low Grade Land

$4,878
down -7.9%
down -$420

Southwest

$6,513

down -13.5%
down -$1,018

high $8,482
med $6,108
low $3,860
POSITIVE FACTORS affecting land values

- Interest rates: 62%
- Land availability: 28%
- Cash available: 21%
- Strong yields: 18%
- Livestock returns: 18%

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NEGATIVE FACTORS affecting land values

- Low commodity prices: 94%
- High input prices: 20%
- Uncertain ag future: 14%
WHO PURCHASED farmland

- Existing Farmers, 78%
- Investors, 18%
- New Farmers, 3%
- Others, 1%

WHO PURCHASED farmland over time:

- Farmers: 80% in 1989, 50% in 2013
- Investors: 20% in 1989, 50% in 2013
SALES ACTIVITY
relative to previous year

CHANGE IN
sales activity from previous year
SUMMARY

• 8.9 percent decrease - largest decrease since 1986
• Land values are still 18 percent higher than in 2011
• Southeast Iowa continued to increase in value, the only area in the state to do so
• Number of sales dropped considerably
• Farm income and interest rates will be keys to watch
• For more information visit www.card.iastate.edu

Average 2015 Typical Cash Rents for Corn & Soybean Acres
What is cost of production?

It is the sum of costs related to making or producing a product.
- Land
- Crop Inputs
- Machinery
- Labor

Estimated Costs of Production

– Released annually (end of December or beginning of January)
– Numbers come from several sources
  – Iowa Farm Business Association
  – ISU Department of Agriculture and Land Stewardship
  – Survey of input suppliers around Iowa
– Often used as a gauge for planning purposes by agricultural businesses and financial institutions
2014 Cost Estimates: Corn following Soybeans

- Land: $692, $772, $848
- Crop Inputs: $244, $287, $328
- Machinery: $270, $299, $327
- Labor: $145, $152, $160

2014 Cost Estimates: Soybeans following Corn

- Land: $506, $557, $606
- Crop Inputs: $244, $287, $328
- Machinery: $148, $156, $163
- Labor: $84, $85, $85

Breakeven at $4.33/bu for Corn and $11.24/bu for Soybeans.
### 2015 Cost Estimates: Corn following Soybeans

<table>
<thead>
<tr>
<th>Crop Yield (bu/a)</th>
<th>Land</th>
<th>Crop Inputs</th>
<th>Machinery</th>
<th>Labor</th>
</tr>
</thead>
<tbody>
<tr>
<td>160</td>
<td>$679</td>
<td>$227</td>
<td>$283</td>
<td>$135</td>
</tr>
<tr>
<td></td>
<td>$4.24/bu</td>
<td>$4.23/bu</td>
<td>$4.17/bu</td>
<td>Breakeven</td>
</tr>
<tr>
<td>180</td>
<td>$761</td>
<td>$273</td>
<td>$312</td>
<td>$142</td>
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<tr>
<td></td>
<td>$4.23/bu</td>
<td>$4.23/bu</td>
<td>$4.17/bu</td>
<td>Breakeven</td>
</tr>
<tr>
<td>200</td>
<td>$835</td>
<td>$312</td>
<td>$340</td>
<td>$149</td>
</tr>
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<td>$4.17/bu</td>
<td>$4.17/bu</td>
<td>$4.17/bu</td>
<td>Breakeven</td>
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</tbody>
</table>

### 2015 Cost Estimates: Soybeans following Corn

<table>
<thead>
<tr>
<th>Crop Yield (bu/a)</th>
<th>Land</th>
<th>Crop Inputs</th>
<th>Machinery</th>
<th>Labor</th>
</tr>
</thead>
<tbody>
<tr>
<td>45</td>
<td>$494</td>
<td>$227</td>
<td>$159</td>
<td>$78</td>
</tr>
<tr>
<td></td>
<td>$10.98/bu</td>
<td>$10.96/bu</td>
<td>$10.81/bu</td>
<td>Breakeven</td>
</tr>
<tr>
<td>50</td>
<td>$548</td>
<td>$273</td>
<td>$166</td>
<td>$79</td>
</tr>
<tr>
<td></td>
<td>$10.96/bu</td>
<td>$10.96/bu</td>
<td>$10.81/bu</td>
<td>Breakeven</td>
</tr>
<tr>
<td>55</td>
<td>$595</td>
<td>$312</td>
<td>$174</td>
<td>$80</td>
</tr>
<tr>
<td></td>
<td>$10.81/bu</td>
<td>$10.81/bu</td>
<td>$10.81/bu</td>
<td>Breakeven</td>
</tr>
</tbody>
</table>
2015 Estimates

- The ISU estimated cost to produce a bushel of corn is $4.28 in 2015 and $10.92 for soybeans
  – That is a state average, specific costs will vary.

  December Corn (CME)       $4.31   Harvest Bid   $3.88
  November Soybeans (CME)   $10.06  Harvest Bid   $9.41

Source: Plastina, ISU Ext. Economics, FM-1712, July 2014
Looking ahead...

- Preliminary numbers indicate another year of economic losses.
- Economic losses are not necessarily cash losses.
- Cash Expenses
  - Operating costs, variable machinery costs, hired labor
  - Land costs if the land is cash rented, or in the process of being purchased
2016 Cost Estimates:
Corn following Soybeans, 180 bu/acre

<table>
<thead>
<tr>
<th>Costs</th>
<th>Predicted Revenue</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$742</td>
<td>$675</td>
</tr>
<tr>
<td>Crop Inputs</td>
<td>$262</td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td>$309</td>
<td></td>
</tr>
<tr>
<td>Labor</td>
<td>$140</td>
<td>$31</td>
</tr>
</tbody>
</table>


2016 Cost Estimates:
Soybeans following Corn, 50 bu/acre

<table>
<thead>
<tr>
<th>Costs</th>
<th>Predicted Revenue</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$532</td>
<td>$463</td>
</tr>
<tr>
<td>Crop Inputs</td>
<td>$262</td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td>$164</td>
<td></td>
</tr>
<tr>
<td>Labor</td>
<td>$79</td>
<td>$27</td>
</tr>
</tbody>
</table>

Negotiating a Fair Cash Lease Rate

• Calculations
  – Reserve or walk away price
  – Fair price using your best information
• Communication of goals and aspirations
• Finding the area between the landowner’s reserve and tenant’s reserve

• What if
  – A landowner isn’t willing to decrease the cash rental rate or reevaluate their reserve and target prices
  – A tenant is told a rental rate is too high to include in their operating note
  – The tenant and landowner were only able to maintain the relationship due to high profitability/rental rates
Timeline

• July & August
  – The crop is growing and maturing
  – Leasing meetings are occurring
  – Decisions are made regarding the September 1 lease termination date.

• September 1
  – Tenants and/or Landowners are on notice that a change will be occurring in their relationship, whether that’s a rate change or needing to find a new tenant.

• October & November
  – The crop is harvested
  – Yields are known
  – FSA payments for the prior year’s crop are received if due

The leasing year begins March 1

• When do you want to know the 2016 cash rental rate for your farm?
• When does Andy need to communicate the rate to his lender?
• When does Esther need to adjust her budget if the cash rental rate changes make a significant difference in her income stream?
Potential Negotiation Problems

- Lose-Lose
  - Leaving money on the table
- Winner’s Curse
  - Settling for too little
- Hubris
  - Walking away from the table
- Agreement Bias
  - Settling for terms that are worse than your current situation

Reserve Price Confidence

- Know your minimum price
- Know your maximum price
- Consider the transaction costs associated with building a new relationship
  - When buying a house it’s better to “fall in love” with three houses than just one
  - How much cash, time, and energy are required to find a new tenant and establish a new relationship
The First Offer

- Prevailing cash rental rates
- Calculated “fair” cash rental rate
  – not if it’s your reserve
- Property characteristics
  - Fertility and drainage
  - Size and shape of fields, % tillable
  - Local grain prices and basis
  - Proximity to roads, grain storage, and the operation’s base farm

Moving toward the middle

- Allow room for concessions rather than using your reserve price as your offer
- Be sure each party is moving, not only one
- Make each price move smaller
- Prepare and use objective reasons to support your prices
Calculating Cash Rent

1. Market Cash Rent
   Crop Reporting District 7
   Overall average $ 242
   High Quality Third = $ 285
   Middle Quality Third = $ 241
   Low Quality Third = $ 199

Calculating Cash Rent

2 a. Average Rents Per Unit – Corn Yield
   Crop Reporting District 7
   Determine Average Rent for Corn
   Farm’s Average Corn Yield 151 bu/a
   X rent per bushel of corn yield $ 1.60
   = Average Rent for Corn Acre $ 242
2 b. Average Rents Per Unit – Soybean Yield

Crop Reporting District 7

Determine Average Rent for Soybeans

Farm’s Average Soybean Yield 46 bu/a
X rent per bushel of soybean yield $ 5.20
= Average Rent for Soybean Acres $ 239

Calculating Cash Rent

2. Average Rents Per Unit – Corn & Soybeans

Add the Average Rent for Both

Corn Average Rent $ 242
Soybean Average Rent $ 239

Average Rent Corn & Soybeans $ 241
Using Corn Suitability Rating (CSR2)

3. Average Rents Per CSR2 Index Point

Crop Reporting District 7

Determine the Average Cash Rent using CSR2

Farm’s Average Corn Suitability Rating: 80
X rent per CSR index point: $3.03
= Rent for all Row Crop Acres: $242

CSR2 information on Web Soil Survey from NRCS at:

Return on Investment Method

Estimated Farmland Rental Rates – Iowa

crop Reporting District 7 farm estimated to have a market value of $6,513 per acre. Expected Rent: (3%) x $6,513 / acre = $195 / acre
Overall Average

Average all 4 Methods (Crop Reporting District 7)

Method 1: Typical Cash Rent $ 242
Method 2: Average Rents per Unit $ 231
Method 3: Average Rents per CSR Index Point $ 241
Method 4: Return on Investment $ 195

Average $228/A

$228 /A X 125 Tillable Acres = $28,500

Split Payments of $14,250 and $14,250

Additional Methods of Farmland Lease Valuation

5. Gross Income Method
6. Tenant Residual Method
7. Crop Share Method
Share of Gross Income

CORN: \[(151 \text{ bu} \times \$3.97) = \$599\]
SOYBEANS: \[(46 \text{ bu} \times \$9.85) = \$453\]

Iowa cash rents typically are equal to about 30 to 40 percent of the gross income from producing corn, and 35 to 45 percent of the gross income from producing soybeans.

Cash Rental Rate

CORN: \[\frac{\$599}{\text{ac}} \times 30\% = \$180\]
SOYBEANS: \[\frac{\$453}{\text{ac}} \times 40\% = \$181\]

Average: \$180

Tenant Residual Method

CORN: \[\$599 - \$572 = \$27\]
SOYBEANS: \[\$453 - \$321 = \$132\]

Average: \$80
## Crop Share 50-50 Lease

<table>
<thead>
<tr>
<th></th>
<th>Landlord</th>
<th>Tenant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(\frac{1}{2}) inputs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(\frac{1}{2}) income</td>
<td></td>
<td>(\frac{1}{2}) income</td>
</tr>
<tr>
<td>Labor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(\frac{1}{2}) inputs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Crop Share Corn Lease 2016

<table>
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<tr>
<th></th>
<th>Landlord</th>
<th>Tenant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$105</td>
<td></td>
</tr>
<tr>
<td>(\frac{1}{2}) inputs</td>
<td>$195</td>
<td></td>
</tr>
<tr>
<td>(\frac{1}{2}) income</td>
<td>$300</td>
<td></td>
</tr>
<tr>
<td>Labor</td>
<td></td>
<td>$31</td>
</tr>
<tr>
<td>(\frac{1}{2}) inputs</td>
<td></td>
<td>$195</td>
</tr>
<tr>
<td>Machinery</td>
<td></td>
<td>$92</td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td>- $18</td>
</tr>
<tr>
<td>(\frac{1}{2}) income</td>
<td></td>
<td>$300</td>
</tr>
</tbody>
</table>
### Crop Share 50-50 Lease 2016

<table>
<thead>
<tr>
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<th>Landlord</th>
<th>Tenant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$146</td>
<td></td>
</tr>
<tr>
<td>½ inputs</td>
<td>$81</td>
<td>$81</td>
</tr>
<tr>
<td>Labor</td>
<td></td>
<td>$27</td>
</tr>
<tr>
<td>½ inputs</td>
<td></td>
<td>$81</td>
</tr>
<tr>
<td>Machinery</td>
<td></td>
<td>$72</td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td>$47</td>
</tr>
<tr>
<td>½ income</td>
<td>$227</td>
<td>$227</td>
</tr>
</tbody>
</table>

### Cash Rent Survey

<table>
<thead>
<tr>
<th></th>
<th>Corn</th>
<th>Soybeans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Rent Survey</td>
<td>$242</td>
<td>$242</td>
</tr>
<tr>
<td>Per Bushel Yield</td>
<td>$242</td>
<td>$239</td>
</tr>
<tr>
<td>Per CSR Point</td>
<td>$242</td>
<td>$242</td>
</tr>
<tr>
<td>Return on Investment</td>
<td>$195</td>
<td>$195</td>
</tr>
<tr>
<td>Gross Income</td>
<td>$180</td>
<td>$181</td>
</tr>
<tr>
<td>Tenant Residual</td>
<td>$27</td>
<td>$132</td>
</tr>
<tr>
<td>Crop Share</td>
<td>$195</td>
<td>$81</td>
</tr>
</tbody>
</table>

Average: $188
Assuring the Rent is Paid

• How can parties assure one another that the rent will be paid?

First Step? -- Use a written lease.
And, be sure that:
(1) The legal description and parcel number in the lease is accurate.
(2) The parties to the lease are properly identified.
(3) The lease terms are clear.
Additional tools to assure rent payment may include:

- Require all rent paid on March 1. (Reduction for interest paid by the borrower may be a consideration.)
- Require irrevocable letter of credit from the Producer/Tenant’s lender.
- Require the Landlord’s name be included as Payee on checks for crops.
- File and perfect a Landlord Lien—this includes recording the lease.

A Landlord’s Lien can be created by including language in a written lease.

- See AgDM File C2-12 (long form) or File C2-16 (short form) (Page 94 in your Farmland Leasing Book.)
- Let’s look at the language →
Landlord’s Lien Law

- Iowa’s Landlord Lien Law went into effect on July 1st, 2001
  - Applies to existing farm leases
  - Gives landowners priority in collecting rent owed by their farm tenants
  - Landowner must have filed a Uniform Commercial Code (UCC) with Secretary of State where tenant does primary business

Landlord’s Lien Law

- Amended by the Iowa General Assembly in 2002
  - UCC Financing Statement, once filed, continues to be effective until a termination statement is filed so long as the parties (landlord and tenant) remain the same.
Landlord Lien Law

• A financing statement filed to perfect a lien in farm products must include a statement that it is filed for the purpose of perfecting a landlord’s lien.
• Must be filed with Secretary of State within 20 days of when the lease goes into effect.

Should you “do it yourself”?

• Just having the language in the lease is not enough.
• Creation, filing and perfection of a Landlord Lien is a complicated legal procedure involving intricacies of Iowa law (Iowa Code ch 570 and related sections) and Uniform Commercial Code (UCC) (Iowa Code ch 554).
• Owner-Landlords who wish to do this may find it advisable to hire an attorney to be certain that all legal documents and procedures are correctly followed.
See also: “Iowa Farm Leases—Legal, Economic and Tax Considerations”

• Pages 4-5 of this article included on Page 13 in your Farmland Leasing Book include discussion of the Landlord’s Lien and security interests.

2014 Farm Bill Follow-up

• October 2017 – potential payments for 2016 crop year won’t be made until October 2017
• October 2016 – payment for 2015 crop year
• October 2015 – payment for 2014 crop year
2014 Farm Bill Follow-up

• Program Election % in Iowa:
  – Price Loss Coverage (PLC)
    Corn Base Acres – 3%
    Soybean Base Acres – 2%
  – Agriculture Risk Coverage – County (ARC-CO)
    Corn Base Acres – 97%
    Soybean Base Acres – 98%

2014 Farm Bill Follow-up

• ARC-CO Program:
  – Each “County” will calculate:
    • Benchmark Yield (5 previous years)
    • Actual Year yield
    • Yields are determined by using NASS and RMA data
  – ARC-CO Revenue calculations are by County and base crop (corn, soybeans) in that county.
2014 Farm Bill Follow-up

- Enrollment sign-up dates:
  - 2016 – 2018, December 1st start date and ends August 1st of each respective contract year

- ARCPLC payments require:
  - $900,000 Adjusted Gross Income (3 yr. avg.)
  - HELC/WC Compliance (AD-1026)
  - “Actively Engaged in Farming” determination under Payment Limitation provisions

Farm Bill Payment Estimator – ARC-CO

Iowa State University
Extension and Outreach

Ag Decision Maker
Beginning Farmer Tax Credit
- Program Purpose

- Encourage agricultural asset owners to lease to qualifying beginning farmers
- Provides owner a credit on Iowa income taxes owed
  - 7% on cash rent
  - 17% on crop share
  - 1% additional first year if BF is a military veteran
Beginning Farmer Tax Credit - Taxpayer

- Owner of record of the asset
- Eligible to own land as a corporate asset owner
- Not at fault for terminating a prior lease
- Not a party to administrative/judicial action
- Not classified as violator by DNR
- Can have more than 1 tax credit/lessee
- At-fault termination must repay redeemed credits

Beginning Farmer Tax Credit - Beginning Farmer

- Net worth less than $703,844
- Sufficient education, training and knowledge to operate farm
- Have access to working capital
- Actively participate in management and labor of the operation and assume financial risk
Beginning Farmer Tax Credit
- Other Provisions

• 2-5 year lease term – can reapply
  – Farmland, machinery, breeding livestock
  – Tax credit issued yearly during lease
  – Renewable at expiration (with re-qualification)
• 7% of gross income = cash contract
• 17% of gross income = crop share agreement
• 1% bonus first year from military veterans
• Flex leases only calculated on base rent
  – No tax credit on bonus
• Lease value not higher/lower than market

Beginning Farmer Tax Credit
- Application/Approval Procedures

• 4-page application:
  – IowaFinanceAuthority.gov/IADD
  – Signed by asset owner and beginning farmer
• Beginning farmer’s financial statement
  – Less than 30 days old when submitted to IADD
  – Completed by lender with witness signature
• Beginning farmer’s background letter
• Submit application and appropriate fee
  – $200 application fee plus:
    • $50 service fee for each year of cash lease
    • $100 service fee for each year of crop share lease
Bioenergy Options

- New farm bill pushes land out of CRP
- Energy laws require more bioenergy content
- Perennial grass crops provide environmental & energy benefits
New Bioenergy Grasses Developed

- Liberty, a new switchgrass variety, enters the market in 2016
- Liberty yields 40% more traditional switchgrasses
- Designed for bioenergy

Thank You!

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