10-2012

Landowners Helping New Farmers

Edward Cox
Drake University

Landowners Helping New Farmers

Abstract
The brochure was developed as part of the Sustainable Agricultural Land Tenure Initiative, and provides an overview of state programs designed to help landowners who want to rent to a beginning farmer, and considerations that landowners might want to include in those leases.

Disciplines
Agriculture | Agriculture Law

to assist a new farmer while renting the remainder of your land to another farmer. This situation benefits new farmers, the land, the local economy, and diversifies your farm income.

Custom Farming. Custom farm arrangements are a great way for new farmers to get a start. Landowners pay the farmer as an independent contractor to raise and harvest the crop, which continues to be owned by the landowner. The new farmer doesn't have to come up with the capital for rent and has minimal risk.

Helpful Contacts

The Beginning Farmer Center at Iowa State University works with landowners, retiring farmers, and beginning farmers through one-on-one assistance as well as regular seminars to transition land to the next generation. They're on the web at www.extension.iastate.edu/bfc/, or they can be contacted at 877-232-1999.

Farm Service Agency. FSA administers the USDA Land Contract Program. Find your local USDA service center at http://www.nrcs.usda.gov/wps/portal/nrcs/main/national/contact/local.

Iowa Agricultural Development Authority. IADA provides financial assistance to Iowa's agricultural producers and administers Iowa's Beginning Farmer Loan Program and Beginning Farmer Tax Credit. Visit http://www.iada.state.ia.us or call 515-281-6444.

Practical Farmers of Iowa (PFI) holds regular webinars focusing on beginning farmer issues, offers a Savings Incentives Program and youth farmer grants, and maintains an online landlink program.

The Women, Food, and Agriculture Network (WFAN) provides information and holds networking events for women landowners and new farmers. WFAN is online at www.wfan.org or they can be reached at (515) 460-2477.

Additional Resources

SustainableFarmLease.org, a Drake Agricultural Law Center website, contains additional information on developing lease arrangements that benefit landowners and beginning farmers. Visit the website or call 515-271-2205 to order a copy of "The Landowner's Guide to Sustainable Farm Leasing."

Support

LEOPOLD CENTER

This project was funded in part by the Leopold Center for Sustainable Agriculture. Established by the 1987 Iowa Groundwater Protection Act, the Leopold Center supports the development of profitable farming systems that conserve natural resources.

Drake UNIVERSITY

The Drake Agricultural Law Center is internationally recognized for providing opportunities to study how the legal system shapes our food system and influences the ability of the agricultural sector to produce, market and utilize agricultural products.

Cover Photo Courtesy of USDA NRCS.

Contact Information

Drake Agricultural Law Center
2621 Carpenter Avenue
Des Moines, Iowa 50311
(515) 271-2205
edward.cox@drake.edu
www.law.drake.edu/aglaw/

LANDOWNERS
Helping New Farmers

A Drake Ag Law Primer

Lesson Plan

I. The Value of Helping New Farmers

Many landowners, being retired farmers themselves or the spouses of farmers, often continue to live on the land or in the community. They may know a specific young person in their community that is trying to begin a farming career and can identify with the challenges of beginning a farm operation.

These landowners are witnessing the emptying of the rural social landscape. Providing land access for a new farmer puts a farmer to work but also places a new family in the community and kids in rural schools.

Renting a piece of land to a new farmer looking to produce vegetables or other specialty crops or to implement a grass-based livestock operation can also diversify farm rental income and help manage risk.

Landowners are sometimes faced with the conflicting desire to assist beginning farmers and promote a rejuvenated rural community with the need for a reliable and steady source of income from cash-rent lease arrangements. The resources discussed here are intended to help ensure both of these goals are met.

II. Landowner Assistance Programs

A. Beginning Farm Tax Credits

Two states, Iowa and Nebraska, currently provide tax credits for landowners who rent to a beginning farmer. The credit allows landowners to reduce the amount of state income tax paid on farm rental income. Both states have specific requirements for the program, including, but not limited to:

- A minimum two year lease in Iowa and three year lease in Nebraska.
- Higher credits for crop-share leases. The Iowa credit is 5% for cash rent and 15% for crop-share. Nebraska offers a 10% credit for cash and 15% for crop-share.

Several states also have similar tax credits for retired farmers who lease or sell equipment to a beginning farmer.

B. Aggie Bonds

The Aggie Bonds program allows states to provide lenders, including landowners that enter installment sale contracts, a tax exemption on interest from financed purchases by beginning farmers. State Agricultural Development Authorities issue tax-exempt private activity bonds to lenders to finance the loans or sale contracts. The exemption on interest is intended to create a lower interest rate on loans or contract sales for beginning farmers.

Therefore, landowners willing and able to receive installment payments for their land are able to receive principle payments as well as interest on their sale; reduce their federal income tax and, in some cases, state income tax; avoid other land transaction fees; and finance a beginning farmer's land purchase.

C. Transition Incentives Program (TIP)

Part of the Conservation Reserve Program, TIP allows retiring farmers to receive two additional CRP rental payments when they lease land to a beginning farmer.

To be eligible the landowner must allow:

1. the farmer to begin organic certification,
2. the farmer to develop a conservation plan, and
3. the farmer to install conservation practices and improvements in accordance with the conservation plan during the last year of the CRP contract.

The farmer must:

1. have been a farmer or rancher for 10 years or less,
2. obtain a conservation plan and implement sustainable grazing or crop production in accordance with the plan, and
3. not be a family member of the landowner.

D. Land Contract Program

This program, as its name implies, takes a different approach to encouraging land transition to beginning farmers through installment land contracts. Administered by the Farm Service Agency (FSA) the program offers two types of guarantees, available at the request of the landowner.

First, is the "prompt payment guarantee." This guarantee provides payment, which covers up to the amount of three amortized annual installments or three annual installments plus the cost of any related real estate taxes and insurance.

Second, the "standard guarantee plan" covers an amount equal to 90% of the outstanding principal of the loan.

Its important to point out that this FSA program focuses on benefits to the landowner and installment sale contracts do come with a significant amount of risk for new farmers—primarily the potential to lose large amounts of equity in case of default. More information on land contracts can be found in the "Installment Land Contracts" Drake Ag Law Primer.

VI. Lease Considerations

Secure Tenure. Unlike an established farmer that may own land as well as rent from other landowners, a new farmer may be dependent on access to your leased farmland. Therefore, secure tenure is crucial to their ability to access capital and purchase needed equipment and supplies.

Under certain circumstances you might also consider providing an option to purchase or a right of first refusal in the lease agreement. This can provide an additional layer of tenure security. If you do decide to address these issues it is especially important to include an accurate legal description of the property in the lease agreement.

Reduced Rent. Reducing the rent, at least initially, is an obvious way to help a new farmer that lacks capital. A graduated rent begins with a first year reduction in the rent that is gradually eliminated. For instance, the rent might be reduced by twenty percent the first year, then fifteen percent the second year, and so forth until your tenant is paying the full rent in the fifth year.

Share Expenses and Equipment. Other cost-sharing tools can also provide valuable help to a new farmer. This can take the form of sharing some of the expenses related to production or perhaps sharing equipment you might own. It should be noted that sharing in expenses, particularly in a crop-share arrangement, may have additional tax and social security payment repercussions.

Mentoring a New Farmer. If you are a farmer yourself or retired from farming you might also consider mentoring a new farm tenant. This provides access to land as well as a wealth of valuable information. If you do take part in the management of the farm you will want to be certain to establish your intent to enter a landlord-tenant relationship rather than a partnership or some other legal relationship. Again, you will want to also pay attention, particularly in a crop-share arrangement, to tax and social security issues.

Consider Leasing a Small Portion of Your Farm. Some new farmers may be looking to only rent a few acres to establish a small diversified operation. This can allow you