# Evaluation of the Beginning Farmer Management Credit and the Credit for Sale of Agricultural Assets

STATE OF MINNESOTA
Legislative Budget Office

PREPARED FOR THE TAX EXPENDITURE REVIEW COMMISSION

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# Agenda

- Background information
- Evaluation
- Evaluations from Other States
- Administrative Burden
- Potential Modifications
- Conclusion

# Background information

- MN Legislature enacted Beginning Farmer Program in 2017
- Two separate tax credits:
  - ***Beginning Farmer Management Credit***
  - ***Credit for Sale of Agricultural Assets***

# Beginning Farmer Management Credit

- Nonrefundable credit
- Available to beginning farmers who participate in a financial management program approved by the Rural Finance Authority
- Equal to the cost of enrollment costs, up to $1,500 per year
- Credit may be claimed for up to three years while enrolled
- Not required to be involved in a sale or rental agreement

# Credit for Sale of Agricultural Assets

- Nonrefundable credit
- Available to asset owners who sell or lease land to beginning farmer
- Equal to:
  - 8% of the sale price or market value of the asset, whichever is less ($50,000 max)
  - 12% of the sale price or market value of the asset, whichever is less ($50,000 max) if sold to limited land access farmer
  - 10% of gross rental income for years 1-3 of a rental agreement ($7,000 annual max)
  - 15% of the cash equivalent of the gross rental income for years 1-3 of a share rental agreement ($10,000 annual max)
- Family member restrictions apply to lease or rental agreement, not sale agreements

# Credit for Sale of Agricultural Assets Funding Cap

- $5 million in 2018
- $6 million annually 2019 to 2022
- $6.5 million in 2023 – previous amounts authorized but not allocated were cancelled
- $4 million annually, 2024 to 2030
- Credit claims exceeded available allocations significantly in 2024 and 2025
- Funding cap was removed for 2026 tax year only - $1.4 million estimated impact

# Credit for Sale of Agricultural Assets (cont.)

- Program budget was reduced by nearly 40% in 2024
- Increase in applications in 2024 and 2025 due to several factors
  - Expanding eligibility to allow direct land sales between family members
  - Increase maximum tax credit amounts from $32,000 to $50,000

# Connection Between Two Tax Credits

- Beginning farmers must complete an approved Farm Business Management program (FBM) for their asset owners to receive the tax credit
- Beginning farmers may request a waiver from this requirement if they have already completed one of the RFA's approved FBM programs, have a four-year agricultural degree, or reasonable work experience in farm finance

# Objectives of Tax Credits

**Credit for Sale of Agricultural Assets:**

Lower barrier of entry for beginning farmers and make them more financially competitive

**Beginning Farmer Management Credit:**

Incentivize beginning farmers to participate in a financial management program approved by the RFA to improve the farming operation success rate in Minnesota

# Effectiveness of Tax Credits

- Did beginning farmer claimants became more successful compared to their counterparts that did not receive the tax credit?
  - Net farm income
- Are established farmers more likely to sell or rent agricultural assets to beginning farmers due to the tax credit?
  - Rent or lease of vehicle, machinery, equipment
  - Rent or lease of farmland, pasture and animals

# Data Sources (2012-2025)

Minnesota Department of Agriculture

- Applications (2018-2025)

Minnesota Department of Revenue

- Credit claims (2018-2024)

Federal IRS Schedule F Form

- Pool of non-claimants (2012-2024)
- Rent or lease of farm equipment and farmland

# Emerging Farmers: Legacy Term

Minnesota Department of Agriculture

- 35 or younger, veterans, women, persons with disability, American Indian or Alaska Native, member of community of color, LGBTQIA
- **Asset owners**: In 2025 and 2024, **81%** and **75%** of applicants were for agreements with emerging farmers, respectively
- **Beginning farmers**: In 2025, **80%** of applicants were emerging farmers

# Tax Credit Recipients (2018-2023)

**Beginning Farmer Management Credit**

- Average FAGI: $72,653
- **Average net farm income:  $4,814**
- **Average tax credit per claimant: $1,209**
- Annual average for all claims: $339,202
- 287 claims per year on average
- 677 total repeat claims

**Credit for Sale of Agricultural Assets**

- Average FAGI: $246,740
- **Average net farm income: $11,309**
- **Average tax credit per claimant: $6,792**
- Annual average for all claims: $1.2 million
- 182 claims per year  on average
- 270 total repeat claims

# Beginning Farmers: Credit Recipients vs Non-Credit Recipients (FAGI <$100,000)

**Credit Recipients (2012-17 and 2018-24)**

- Average FAGI: $30,177
- Average net income: -$1,080
- Average rent or lease of machinery, vehicles, and equipment: $10,532*
- Average rent or lease of farmland, pasture or livestock: $46,637*
- Average count: 176 farmers

**Non-credit Recipients (2012-17 and 2018-24)**

- Average FAGI: $31,572
- Average net income: -$6,489
- Average rent or lease of machinery, vehicles and equipment: $7,082*
- Average rent or lease of farmland, pasture or livestock: $35,506*
- Average count: 32,606

* *Electronic filers only*

# Beginning Farmers: Change in FAGI of Credit Recipients vs Non-Credit Recipients (FAGI <$100,000)

Average FAGI Prior to and Following Credit Access

| | 2012-2017 | 2018-2024 |
|---|---|---|
| Credit Recipients | $24,928 | $34,676 |
| Non-Credit Recipients | $32,199 | $31,034 |

# Findings for Beginning Farmer Management Credit

Did beginning farmers who received the credit became more successful compared to their counterparts who did not receive the tax credit?

- Positive correlation with net farm income of beginning farmers with a FAGI of less than $100,000
- Claimants: net farm income increased from **-$1,571 to -$606**
- Non-claimants: net farm income decreased from -**$4,128 to -$8,436**

Caveats:

- Claimants: 80% emerging farmers vs unknown for control group

# Findings for Credit for Sale of Agricultural Assets

Are established farmers more likely to sell or rent agricultural assets to beginning farmers due to the credit?

- Credit does appear to incentivize rent or lease of equipment, and rent or lease of farmland
- Average rent or lease expenses for farmland and equipment increased after 2017 for beginning farmers

| Beginning Farmer Rent and Lease Categories | Expenses 2012-2017 | Expenses 2018-2024 |
|---|---|---|
| Farmland | **$29,334** | **$61,469** |
| Equipment | **$7,637** | **$13,014** |

- Caveat: average rent or lease may not link established farmers to beginning farmers

# Relative Size of the Tax Credits

**Beginning Farmer Management Credit**

- Average claim is **25%** of average net farm income of claimants
- Average claim is **11%** of value of rent or lease for equipment for claimants with a FAGI of less than $100,000

**Credit for Sale of Agricultural Assets**

- Average claim is **60%** of average net income of all claimants
- Average claim is **17%** than average value of rent or lease of farming equipment of claimants with a FAGI of more than $100,000

# Evaluations in Other States - Colorado

- Income tax deduction equal to 20% of lease payments received by the asset owner up to $25,000 per year for three years
- Evaluated too soon after enactment to understand impact
- Ultimately uptake was low
- Replaced by a low interest loan program subsidized by state bonds to private lenders

# Evaluations in Other States - Iowa

- Credit equal to 5% for cash payment or flex lease agreements or 15% for crop share agreements to land-owners
- A 2020 study found participation was associated with higher farming retention rates and more established farmers when compared to non-participants
- Between 2009 to 2019, the participant group of the study had retention rate that was ten percentage points higher than the comparison group
- Average farm income net profits increased for program participants over the same time span

# Evaluations in Other States - Nebraska

- Credit to asset owners equal to 10% of the lease amount for cash rent or 15% share rent agreements
- Tax credit applies to lease agreements of equipment and farmland
- Beginning farmers may take a personal property tax exemption on up to $100,000 of valuation for three years
- A refundable credit, up to $500, to reimburse them for costs incurred to complete a financial management education program
- The evaluation did not establish a causal relationship between program participation and land ownership

# Federal Transition Incentive Program - USDA

- Incentivizes landowners to sell or lease their expiring Conservation Reserve Program to beginning farmers, veterans, or socially disadvantaged farmers
- Incentive is two additional rent payments under Conservation Reserve Program
- 25 payments in 2025, to 20 different MN landowners
- $103,617 total in 2025
- Average payment of $5,181

# Administrative Burden

- Recipients - Considerable
  - Eligibility determinations
  - Required documentation
  - Timing component
- DOR – Minimal
  - 0.6 FTE to process claims manually
- Rural Finance Authority – Minimal
  - 0.6 FTE to administer the program

# Potential Modifications

- Change funding caps
- Regional prioritization
- Repeal of first-come, first-serve direction to MN Dept of Ag

# Conclusion

- Challenging agricultural landscape for beginning farmers: lack of access to government programs, credit, farmland, markets and technology

- In 2017, the Minnesota Legislature enacted two tax credits that aim at helping beginning farmers

- Beginning Farmer Management Credit is positively correlated with net farm income of beginning famers with a FAGI of less than $100,000

- Credit for Sale of Agricultural Assets is positively correlated with rent or lease of farm equipment and farmland of beginning farmers with a FAGI of less than $100,000

# Thank you

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# Appendix

# Federal Relief During COVID-19

- Pandemic Assistance for Producers Initiative through 21 USDA separate programs

Examples include:

- Beginning Farmer and Rancher Development Program
- Pandemic Cover Crop Program
- Pandemic Assistance Revenue Program
- Specialty Crop Block Grant
- Local Agricultural Market Program
- Pandemic Livestock Indemnity Program

# Direct Payment Alternative

**Beginning Farmer Equipment and Infrastructure Grants**

Minnesota Statutes 2025, section 17.055, subdivision 3

- Enacted in 2023
- 97 grants awarded totaling $956,833 (2025)
- 1,100 applicants, requesting $18.6 million (2025)
- Agency expects to award 70-95 grants totaling to $700,000 for FY27