GROWING THE GOOD LIFE

A Statistical Analysis of the Nebraska NextGen Beginning Farmer Tax Credit Program

ABSTRACT

This paper explores the historical uses of the Nebraska NextGen Beginning Farmer Tax Credit Program. It highlights the importance of this program throughout Nebraska in cultivating the next generation of Nebraska farmers and ranchers.

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Introduction

The National Institute of Food and Agriculture (NIFA) in the United States Department of Agriculture (USDA) provided support for this analysis through Legal Aid's Beginning Farmer and Rancher Development Project grant # 2015-70017-23907. The Beginning Farmer and Rancher Development Program (BFRDP) provides support to organizations that directly work with beginning farmers and ranchers throughout the country. The purpose of the BFRDP program is to increase the number of beginning farmers and ranchers through resource development and education.

Through this generous support from NIFA, Legal Aid conducted this analysis of the Nebraska NextGen Beginning Farmer Tax Credit Program. The goal of this analysis is to provide a snapshot of the program thus far since its enactment in 2009. An overview of the program's development is provided. Other state programs are illustrated, focusing on comparing and differentiating each state's program. Historical uses are analyzed including the location of use in Nebraska, types of agricultural assets enrolled in the program, types of leases, and types of operations that applied for this program. With the understanding gained through this analysis, we hope to provide some insights and recommendations for future marketing and targeting of users.

Thank you

Thank you to the National Institute of Food and Agriculture for providing the funds to complete this project. The impact of this support is invaluable to beginning farmers and ranchers in Nebraska and across the country. Thank you to the Nebraska Department of Agriculture NextGen Program, especially to Karla Bahm for your encouragement and willingness to always answer questions. All the staff and associates through Legal Aid of Nebraska, especially Michelle Soll, Lori Marr and Joe Hawbaker, thank you! A special mention of Grant Orley, who came to the rescue and provided beautiful visuals for this work. And finally to every family member and friend who encouraged and supported this program.

Background of NextGen Program

The Nebraska Unicameral enacted the Beginning Farmer Tax Credit Act (Act) in the 1999 legislative session. The stated purpose is to encourage asset owners to lease land and assets to the next generation of farmers and ranchers.[1]

In the beginning, to better understand and serve the agricultural sector of the state, the legislature conducted a study to outline the situation of that sector. This study found that the current farm economic conditions in the state resulted in "unemployment, out migration of people, loss of agricultural jobs and difficulty in attracting and retaining farm operations."[2] Nebraska's economy relies on the agricultural sector. In 2016, agriculture contributed over $21.5 billion dollars to the Nebraska economy[3] and currently, one in four jobs is agriculturally related.[4] Any disruption or decline in this economy will have major impact on the state. It is in the best interest of the unicameral to encourage and support agriculture.

The study also found that "major revisions in Nebraska's tax structure are necessary to accomplish economic revitalization of rural Nebraska and to be competitive with other states involved in economic revitalization and development of agriculture."[5] The majority of Nebraska's population resides in three eastern counties. The remaining population lives generally west of the capitol city, Lincoln. An issue tantamount to the legislature is ensuring that those communities in western Nebraska survive and thrive. Nebraska, like many other rural states, has witnessed an out migration from rural communities as many leave the farm for education or work and do not return to that community.

[1] Nebraska Department of Agriculture, Beginning Farmer Tax Credit Act, *available at* http://www.nextgen.nebraska.gov/laws/act.pdf.
[2] *Id*.
[3] Nebraska Department of Agriculture, Nebraska Agriculture Fact Card, *available at* http://www.nda.nebraska.gov/facts.pdf.
[4] *Id*.
[5] Nebraska Department of Agriculture, Beginning Farmer Tax Credit Act, *available at* http://www.nextgen.nebraska.gov/laws/act.pdf.

To address these issues, the legislature enacted the Beginning Farmer Tax Credit program. The priority goal of this program was to "encourage Nebraska's aging farm and ranch population to rent agricultural assets to beginning farmers [and ranchers]."[6] As the average age of farmers in the state rises (in 2012 the US Agricultural Census indicated it was 55.9 for Nebraska farmers and ranchers), concerns developed about farm and ranch transitions that were expected to happen. Ten percent of land is slated to transfer hands during the period of 2015-2019.[7] The NextGen Beginning Farmer Tax Credit Program was created to provide incentives to established farmers to lease to a beginning farmer or rancher. A benefit is given to the property owner through a tax credit based on the lease signed with the beginner. This program also provides beginning farmers a tool to use when approaching landowners about renting an asset. Finding land is often a barrier for beginning farmers and ranchers. The beginning farmer or rancher would thus provide a benefit directly to the landowner and in return they will be able to obtain a lease for three years.

Due to the aforementioned reasons, the legislature enacted this program in the 1999 legislative session. Initially, the Nebraska Department of Agriculture saw limited use of the program. The program in its initial stages only offered the tax credit for asset owners. The benefit of the program was purely for the asset owner. Lack of participation in the early years of this program lead the legislature to revisit the program to try to revamp it to attract more beginning farmers and ranchers.

In 2009, the unicameral added features to the program in hope of attracting more participants. Changes included adding incentives for beginning farmers to participate in the program. The first major change to the program included developing the Personal Property Tax Exemption (PPTE). The PPTE was a major game changer for the program. A beginning farmer may exempt up to "one hundred thousand dollars of taxable value of agricultural or horticultural machinery and equipment."[8] This directly impacts the

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[6] *Id*.
[7] United States Department of Agriculture, Economic Research Service. Visualizing U.S. Farmland Ownership, Tenure, and Transition, https://www.ers.usda.gov/data-products/data-visualizations/other-visualizations/visualizing-us-farmland-ownership-tenure-and-transition/.
[8] Nebraska Department of Agriculture, Beginning Farmer Tax Credit Act, *available at* http://www.nextgen.nebraska.gov/laws/act.pdf.

beginning farmer and rancher operations as they too can have high tax liability. Due to this addition, the program's enrollment increased as more beginning farmers and ranchers were able to directly benefit from participating in the program.

Asset owner definition also happened in 2009. Anyone with an ownership interest in an agricultural asset can apply to the program. This includes individuals and business entities. Family members were also included in the definition with the 2009 changes. Close relatives were included as eligible "if the asset in the rental agreement is included in a written success plan to transition the asset between the two parties."[9] Having to submit a succession plan ensures that families begin to have those conversations. For example, a study conducted by Iowa State University demonstrated that over 70% of retiring landowners have made no succession plans.[10] This requirement for development of succession plans will help ensure that plans are in place for the transfer of agricultural assets to relatives. The parties are required to submit a succession plan as evidence that there exists a transitional plan established to completely transfer ownership of the property within a thirty year period.[11]

With these changes, the Nebraska Department of Agriculture saw an increase in the use of this program. All the changes proved to be beneficial for participants in the program, but the PPTE was cited as the major reason for the increase in the program use. [12]

NextGen Program Overview

This section provides an overview of the current NextGen Beginning Farmer Tax Credit program in Nebraska including a brief outline of the process.

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[9] *Id*.
[10] Iowa State University, *Farm Succession In Iowa*, available at http://www.extension.iastate.edu/bfc/sites/www.extension.iastate.edu/files/bfc/IA%20Farm%20Business%20survey%20results.pdf.
[11] Nebraska Department of Agriculture, Beginning Farmer Tax Credit Act, *available at* http://www.nextgen.nebraska.gov/laws/act.pdf.
[12] Nebraska Department of Ag, NextGen Annual Report 2010-2011, available at http://www.nextgen.nebraska.gov/reports/annual_report_14_15.pdf, retrieved on July 5, 2018.

Eligibility Guidelines for Beginning Farmers and Ranchers. To participate in the program the Nebraska Department of Agriculture has developed strict eligibility guidelines that the beginning farmer must meet. For the beginning farmer, the requirements are:

1. has a net worth of not more than two hundred thousand dollars[13], including any holdings by a spouse or dependent, based on fair market value;
2. provides the majority of the day-to-day physical labor and management of his or her farming or livestock production operations;
3. has, by the judgment of the board, adequate farming or livestock production experience or demonstrates knowledge in the type of farming or livestock production for which he or she seeks assistance from the board;
4. demonstrates to the board a profit potential by submitting board-approved projected earnings statements and agrees that farming or livestock production is intended to become his or her principal source of income;
5. demonstrates to the board a need for assistance;
6. participates in a financial management program approved by the board;
7. submits a nutrient management plan and a soil conservation plan to the board on any applicable agricultural assets purchased or rented from an owner of agricultural assets; and
8. has such other qualifications as specified by the board. [14]

The NextGen staff work tirelessly to help beginning farmers and ranchers with whatever resources they need to make application to this program. They help those applying to understand the process and ensure they have all necessary documents included in the application. One noted hurdle is the net worth requirement whereby some who apply do not fall under this cap. As noted in a subsequent section, other

[13] Nebraska Department of Agriculture, Beginning Farmer Tax Credit Act, *available at* http://www.nextgen.nebraska.gov/laws/act.pdf.
[14] *Id*.

states have a much higher net worth requirement which allow for more beginning farmers and ranchers to qualify for the program.

Benefits for Beginning Farmers. Some benefits to the beginner include the following: access to a piece of equipment that they would not had have before; the lease term is for three years so it gives them more security than a year to year lease; experience in managing the relationship between themselves and the asset owner; and developing the financial history they require to seek loans for their operations.

In addition to establishing the lease, the beginner also receives a one-time credit for participating in a financial management program. The Nebraska Department of Agriculture has an approved list of management classes that they will accept. The point of this requirement is to ensure the beginner is developing the critical skills needed to ensure their operations are sustainable. The classes can cover a variety of topics including "assistance in the creation and proper use of record keeping systems, periodic private consultations with licensed financial management personnel, year-end monthly cash flow analysis, and detailed enterprise analysis."[15] The beginner, through participating in these management classes, will develop the financial management skills necessary for them to succeed.

Asset Owner Requirements. For the asset owner, requirements to participate in the program are less strict than those placed on the beginner. The program simply requires that the asset owner is an "individual or a trustee having an ownership interest in an agricultural asset located with the State of Nebraska who meet any qualification determined by the board."[16] As mentioned previously, the definition of an asset owner was slightly altered in 2009. An important aspect of this definition is that the owners have an interest in an agricultural asset located in Nebraska. The owner does not have to be a resident of the state.

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[15] Nebraska Department of Agriculture, Beginning Farmer Tax Credit Act, *available at* http://www.nextgen.nebraska.gov/laws/act.pdf.
[16] *Id.*

Benefits to Asset Owners. The type of lease with the beginner determines the amount of the tax credit for the asset owner. For a cash rent lease, the tax credit is ten percent of the total rent for the year whereas if the lease is a share agreement, the amount will be fifteen percent. The best way to understand this is through various scenarios. For example:

- 200 Acres @ $300/ac Cash Rent = $60,000 rent
    - 10% = <u>$6,000 Tax Credit</u>
    - <u>Over three year: $18,000 Tax Credit</u>

In this example, the beginner is renting 200 acres at $300 per acre totaling $60,000 in rent for the year. Since it is cash rent, the asset owner would receive ten percent of that year's total rent payment made by the beginner as a tax credit. Thus, the asset owner would receive a $6,000 tax credit per year. Over the three year lease period, the asset owner would receive in total, $18,000 as a tax credit for leasing to a beginning farmer. This can prove to be a helpful resource for farmers facing high property taxes throughout the state.

If the lease is a share agreement, the tax credit rate jumps to 15% of the owner's share of the asset. For example:

- 160 Acres @ 200 Bu/ac @ $4.00/bu = $128,000 gross income
    - 50/50 share rent $64,000 x 15% = <u>$9,600 Tax Credit</u>
    - <u>Three years: $28,800 Tax Credit</u>

In this example, the beginner is leasing 160 acres at 200 bushels per acre with four dollars a bushel corn. The gross income from these acres totals $128,000. The share for the established farmer is 50 percent which equals $64,000 of the total gross income. Fifteen percent of the asset owners share equals $9,600, which is the tax credit amount the asset owner would receive for one year of the program. Total that up over three years, and the asset owner would receive $28,000 over the three years of the program.

As highlighted throughout this section, this program can be of great benefit to both a beginning Nebraska farmer as well as an asset owner. The beginning farmer can obtain a three year lease with an established farmer, participate in the Personal Property Tax Exemption, and begin to establish a relationship with that established farmer of choice. As for the established farmers, they will receive the tax credit along with helping the next generation of farmers in Nebraska develop skills in this important sector. It has proven to be a helpful program for Nebraska farmers and ranchers.

Beginning Farmer and Rancher Tax Credit Programs in Other States

Other states have seen the benefit of Nebraska's program and created similar programs for their own beginning farmers. For purpose of this analysis, Minnesota and Iowa will be the focus. Wisconsin had a tax credit program but will not be a focus of this analysis as it is currently not active. Minnesota and Iowa have programs very similar to Nebraska's and this section highlights the similarities and differences in these programs.

Minnesota

Minnesota has the newest Beginning Farmer Tax Credit program which went into effect January 1, 2018. The goal of Minnesota's program is to help the next generation of farmers and ranchers gain access to land and equipment. This is a common theme in each state's program. Minnesota's program offers similar benefits to a beginning farmer in a lease with an asset owner. This program also offers a tax benefit to the established farmer. Minnesota's program goes beyond previous programs by trying to encourage the sale of equipment to beginning farmers and ranchers. It is the first of its kind. Additionally, Minnesota includes a tax credit available to beginning farmers similar to the PPTE in Nebraska.

Beginning Farmer Requirements. A beginning farmer is defined as "a Minnesota resident who is seeking entry into farming or has started farming within the past 10 years."[17] This is very similar to the

[17] Minnesota Department of Agriculture, Beginning Farmer Tax Credit, *available at* https://mda.state.mn.us/bftc.

federal definition of a beginning farmer and the definition for Nebraska. The beginner cannot act simply as a hired hand on the farm in that they must be making managerial decisions on the farm along with the majority of the labor.[18] This requirement indicates that beginning farmer must have “adequate experience and knowledge of the type of farming they are seeking assistance for.”[19] One requirement beyond Nebraska’s is that the beginner must provide positive earnings statements, ensuring that the farm is viable and profitable for the beginning farmer, hopefully indicating that they have a higher likelihood of succeeding in farming.[20] The next requirement for beginning farmers in Minnesota is that their net worth does not exceed $800,000.[21] In comparison to Nebraska, this limit is much higher, so more beginning farmers could potentially qualify for the program in Minnesota than in Nebraska.

In addition to the requirements stated above, the beginning farmer must also enroll in an approved financial management program.[22] The Beginning Farmer Tax Credit Program can help cover the cost of enrolling in an approved financial management program. One hundred percent of the cost of the financial management credit will be covered up to a $1,500 limit and the credit need not be tied to any agricultural asset sale or rental.[23] Unlike Nebraska, where it is a one-time credit, in Minnesota the credit can be granted for three years. If this credit exceeds the tax liability, the excess can be carried forward three years ensuring that the beginning farmer receives the full benefit of this credit.[24]

Asset Requirement. Minnesota has a broad and inclusive definition for agricultural assets. For the asset to qualify, the asset can be “agricultural land, livestock, facilities, building and machinery used for

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[18] *Id.*
[19] *Id.*
[20] *Id.*
[21] Minnesota Department of Agriculture, Beginning Farmer Tax Credit, *available at* https://mda.state.mn.us/bftc.
[22] *Id.*
[23] *Id.*
[24] Minnesota Department of Agriculture, Beginning Farmer Tax Credit, *available at* https://mda.state.mn.us/bftc.

farming in Minnesota."[25] Similar to Nebraska, the asset must be located within the state boundaries and used for agriculture.

Asset Owner. In Minnesota, the asset owner may be an individual, entity partnership, or other pass-through entity including a trust. Minnesota does put additional restriction on the asset owner in that they cannot be "an equipment dealer, livestock dealer, or comparable entity engaged in the business of selling agricultural assets for profit."[26] Restrictions such as these help reach those who want to help beginning farmers and ranchers by eliminating those who participate only for dealers selling for a profit.

Benefits to asset owners. Minnesota is the first to offer a tax credit for the sale of an agricultural asset to a beginning farmer. The credit caps at $32,000 and is five percent of either the fair market value or the sale price, whichever is the lesser.[27] If leasing the asset to a beginner, similar to Nebraska's program, the tax credit will depend on the type of lease. If the lease is for cash rent, the asset owner will receive "ten percent of gross rental income in each of the first three years of a rental agreement, up to $7,000 a year."[28] In regard to a share agreement, this cap is $10,000 a year and the credit increase to fifteen percent of the cash equivalent to the gross rental income of the first three years.[29]

Over time this program intends to help Minnesota beginning farmers access assets and land that they would not have been able to access previously. With the benefits to both beginners and asset owners, and with the addition of a tax credit for the sale of property, this program will help with the next generation of Minnesota farmers.

[25] *Id.*
[26] *Id.*
[27] Minnesota Department of Agriculture, Beginning Farmer Tax Credit, *available at* https://mda.state.mn.us/bftc.
[28] *Id.*
[29] *Id.*

Iowa

Iowa's Beginning Farmer Tax Credit program was created by the Iowa Legislature in 2007.[30] The justification for doing so was similar to both Nebraska and Minnesota's in that it was created to help encourage established farmers to rent agricultural assets to beginning farmers in the state. Currently, the program's budget has decreased from 12 million to 6 million dollars and the Iowa Finance Authority indicated that they only have 2 million to allocate for new applications to the program in 2019. Due to this reduction in the budget, the Iowa Finance Authority, who manages the program, was unable to take any new applications for 2018.[31] The long term impact of the budget reduction of the program on beginning farmers in Iowa is yet to be seen.

Beginning Farmer Requirements. Like Nebraska and Minnesota, Iowa has set minimal requirements for beginning farmers to qualify for the program. Iowa's income standard is more akin to Minnesota's as it is much higher than Nebraska's. In Iowa's the limit is $703,844, which is adjusted annually.[32] This net worth limitation changes if the beginning farmer is part of a legal entity. For example, if the beginner is part of a partnership, all partner's assets, including the assets of the partner's spouse and minor children, go into the net worth for the applying beginning farmer. If this is the case, then the limit is two times the net worth requirement.[33] Similar to the requirement in Minnesota, the beginning farmer must have knowledge about the type of farming they are seeking the tax credit for either through education, training, and/or experience. This may seem like a barrier to those who are just getting started, but this knowledge can be explained through a background letter submitted to the Iowa Finance Authority as part of the application. The beginning farmer must also have access to adequate working capital, farm equipment,

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[30] Tidgren, Kristine A., *Iowa Beginning Farm Tax Credits Facing Changes*, available at https://www.calt.iastate.edu/blogpost/iowa-beginning-farmer-tax-credits-facing-changes.
[31] Iowa Finance Authority, Beginning Farmer Tax Credit, *available at* http://www.iowafinanceauthority.gov/Public/Pages/PC204LN48
[32] Code of Iowa § 175.2.12.
[33] Iowa Development Authority. *2018 Beginning Farmer Tax Credit Program Information.* Available at http://www.iowafinanceauthority.gov/Home/DocumentSubCategory/156.

machinery, or livestock to ensure their operation is viable. Finally, as in Nebraska and Minnesota, the Iowa beginning farmer must be more than a hired hand on the operation. The beginner must make managerial decisions and substantially participate in farming. This ensures they are developing the skills necessary to ensure their own operation will be successful.

Asset Owner Requirements. In Iowa, the definition of who can apply as an asset owner is very broad. Any business entity, individual estate, or trust can qualify as an asset owner. The only restriction placed on these individuals or business entities is if they have previously violated animal feeding laws in Iowa or wrongfully terminated a prior lease. These restrictions serve to indicate those persons seeking the tax credit with past behavior that directly conflicts with the goals of this program.

Agricultural Assets. Iowa has defined agricultural assets similar to that seen in Nebraska and Minnesota. The asset must be located within Iowa's state boundaries and can include "agricultural land, improvements and depreciable property (machinery, equipment and breeding livestock) used for farming purposes."[34] Iowa explicitly excludes both land enrolled in the Conservation Reserve Program and rural residences.

Program Benefits. The Iowa Finance Authority requires a written lease to participate in the program.[35] Iowa varies in its requirement for the term of the lease opting for a range instead of a three year requirement found in Nebraska and Minnesota. In Iowa, the lease has to be a minimum of two years and cannot exceed five years.[36] Additionally, Iowa offers the beginner and asset owner the option to reapply for the program after the expiration of their lease. This goes beyond the program in Nebraska, wherein once an agricultural asset is enrolled in the program, it can no longer receive the benefit of the tax credit. Also, this non-refundable tax credit in Iowa can be applied in subsequent years after it was granted. This

[34] Iowa Development Authority. *2018 Beginning Farmer Tax Credit Program Information.* Available at http://www.iowafinanceauthority.gov/Home/DocumentSubCategory/156.
[35] *Id.*
[36] *Id.*

is allowed for up to five years after the credit was granted or until it is depleted. This ensures that the benefits can be fully realized by the participants.

As in both Nebraska and Minnesota, the extent of the tax credit depends on the structure of the lease agreement. For a share agreement, originally, the tax credit was seventeen percent of the value of the owner's share of the product, but this has been reduced to fifteen percent in 2018.[37] The current tax credit for cash rent and flex agreement is five percent of the rental income received, which was reduced from seven percent in 2018. These reductions in the tax credit amount directly stem from the program budget reductions noted in the beginning of this section. The impacts of the reductions have yet to seen as to the effects on participation levels for the program. Iowa's program has provided support for beginning and established farmers since the start and will hopefully keep providing this support for the next generation of farmers in Iowa.

Analysis of Nebraska's NextGen Program

In the summer of 2017, the Nebraska Department of Agriculture provided to Legal Aid of Nebraska the data collected by the department regarding the NextGen program. The data set dates back to 2009 when the program started. Through this progress, Legal Aid met with representatives of the NextGen program to understand expectations and goals for this analysis. The overall goal, as previously mentioned, was to provide a snapshot of the program since its enactment. It is important to note that the program was not heavily used before the PPTE and other changes were put in place in 2009. As a result, data is missing from the first ten years of this program resulting in large data gaps which impact the results of this analysis.

The analysis focuses on specific topics including the types of assets and of entities used in the program, for both the asset owner and the beginning farmer, the location of use of the program and lastly, the type

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[37] Iowa Development Authority. *2018 Beginning Farmer Tax Credit Program Information.* Available at http://www.iowafinanceauthority.gov/Home/DocumentSubCategory/156

of lease used. Further, trends are identified to provide information about where the program can grow, as well as where NextGen staff and other supporting organizations can focus their efforts in promoting and encouraging enrollment in the program.

General Overview

This section provides an overview of the use of the program throughout the state and paints a picture for administrators of the program regarding utilization of the program. This analysis also sheds light on where to focus effort in order to increase knowledge of and about, and enrollment in, the program (Please see *Figure 1*).

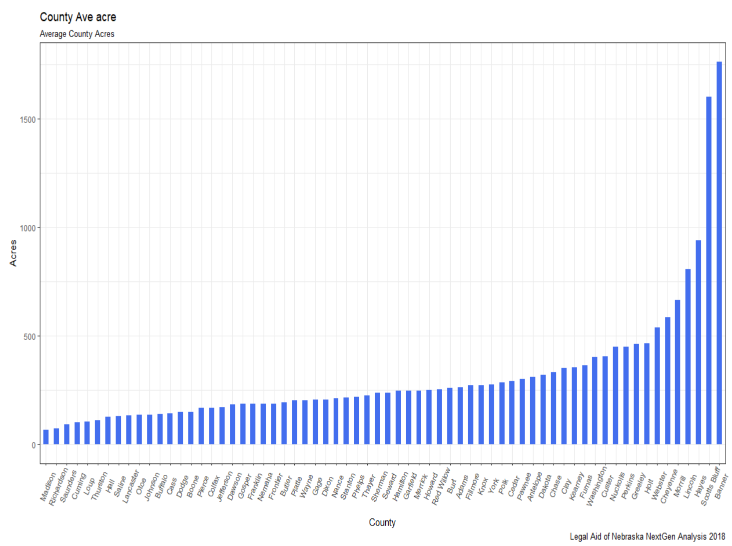

Figure 1: Acres enrolled by County

To set the stage, Nebraska has 93 counties, ranging in size from the largest, Cherry County with 6,009.5 square miles, to the smallest, Dakota County with 267.4 square miles.[38] The total land area is 49,509,600 acres in Nebraska.[39] Along with the diversity in size of counties, operations are just as diverse across the state. Nebraska is known for its corn and the majority of farming operations grow corn and soybeans. Nebraska ranks third in corn production and fourth in soybean production. In beef and veal exports and great northern beans Nebraska ranks first.[40]Along with production of these commodity crops, Nebraska has a long history of smaller family farmers growing everything from tomatoes, dry beans, sunflowers, and

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[38] Nebraska Databook. Land Area of Counties, available at: https://opportunity.nebraska.gov/files/research/stathand/asect1.htm,

[39] Farmland Information Center, *Nebraska Statics*, available at https://www.farmlandinfo.org/statistics/nebraska.

[40] Nebraska Department of Agriculture, Beginning Farmer Tax Credit Act, available at http://www.nextgen.nebraska.gov/laws/act.pdf.

hops. Finding a program that can work with this diverse range of producers can prove challenging. The NextGen Beginning Farmer Tax Credit has proven successful in ability to apply to this wide range of producers, although there are still challenges for some to access the program.

Since the onset of data collection, a total of 717 applications have been received. Of those applications, 50 were withdrawn after applying. Additionally, 55 applications were rejected by the board. Overall, 612 out of 717 applications were approved by the board indicating that about 14.6% of applications were withdrawn by the participant or failed where as 85.4% were successful in the application process.

Of those approved applications, a total of 653 beginners were enrolled in the program. This number was obtained by removing duplicate beginners from the data set as best as could be determined by the included information. Concerning asset owners, there were 465 individual asset owners, whether an individual, business entity, trust, or other ownership form. Out of the beginners, 493 rented an agricultural asset from a non-relative, ninety-five rented from a relative and for 75 of the beginners there was no data available to indicate whether the beginner was a relative or not. Essentially, the majority of asset owners did not rent to a relative.

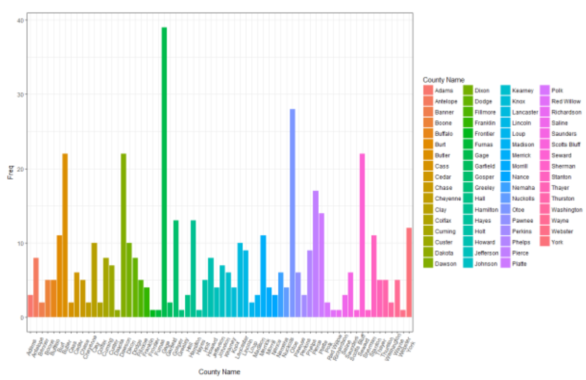

Figure 2: County Acres

From further evaluation of the data set, there are areas of the state where the program is underutilized or not utilized at all. Out of the 93 counties, 66 counties have had acres enrolled in the program (Please see *Figure 2)*. For purposes of this section, the NDA keeps records about the acres of cropland that are enrolled and sometimes will include acres of pastureland enrolled in the program. The Department generally does not track counties where only equipment or facilities are enrolled in the program.

To understand the use of the program, one simple way is to look at the numbers of acres enrolled, where those are located, and where the program has not been used. As noted earlier, 66 counties have either cropland or pastureland enrolled in the program meaning 27 counties have not had acres enrolled. This does not necessarily mean that the program has not been utilized in those 27 counties, there is just lack of information to show that they have. Generally, the program use has been concentrated in the eastern to the middle of the state. For example, regarding the eleven counties that make up Nebraska's panhandle, less than half have enrolled acres in the program and only nine approved applications were located in those counties (See interactive map here: https://batchgeo.com/map/144673de7a87afc18f40ea21cc552f60).

The county with the highest enrolled acres in the program was Lincoln County with 7,264 enrolled acres. The lowest enrollment was in Madison County with only 195 acres. The lowest amount of acres in one application was 12.5 acres in Otoe County whereas the largest amount of acres enrolled in one application was in Banner County with 2924.35 acres.

In conclusion, a wide variety of operations utilize this program across the state. One aspect highlighted by this analysis is that the majority of those applications are located in the eastern and middle part of the state. Ranchers and farmers in that part of the state could prove to be a beneficial group to target in subsequent years of this program.

Types of Agricultural Assets

This next section will explore what types of assets are being leased through this program. Agricultural assets are defined as "agricultural land, livestock, farming or livestock production facilities or buildings and machinery used for farming or livestock production located in Nebraska."[41] Cropland is the type of agricultural asset that is enrolled the most through this program. Out of the total applications, 439 were for cropland, 50 were for agricultural equipment, 39 were for pastureland, 26 were for facilities, and 9 were for livestock (Please see *Figure 4*).

[41] Nebraska Department of Agriculture, Beginning Farmer Tax Credit Act, available at http://www.nextgen.nebraska.gov/laws/act.pdf.

This finding is not generally surprising. Traditionally, most agricultural leases are tied to renting agricultural land. As indicated earlier, the geographical area where this program is utilized the most is the middle to eastern part of the state. This is where the majority of cropland lies, whereas the majority of ranches and pastureland is located in the west. There are two parts to this insight: first, traditionally agricultural leases have been used in the context of renting land. Since farmers and ranchers are already leasing to beginners in this manner, it is easier to see how this program could benefit their operation; secondly, farmers and ranchers in the eastern part of the state are already using the program; therefore, the farmers in the eastern part of the state are more likely to know about the program through word of mouth. If a neighbor is already participating in the program, their neighbor or local community member would likely know about it or hear it at the local coffee shop.

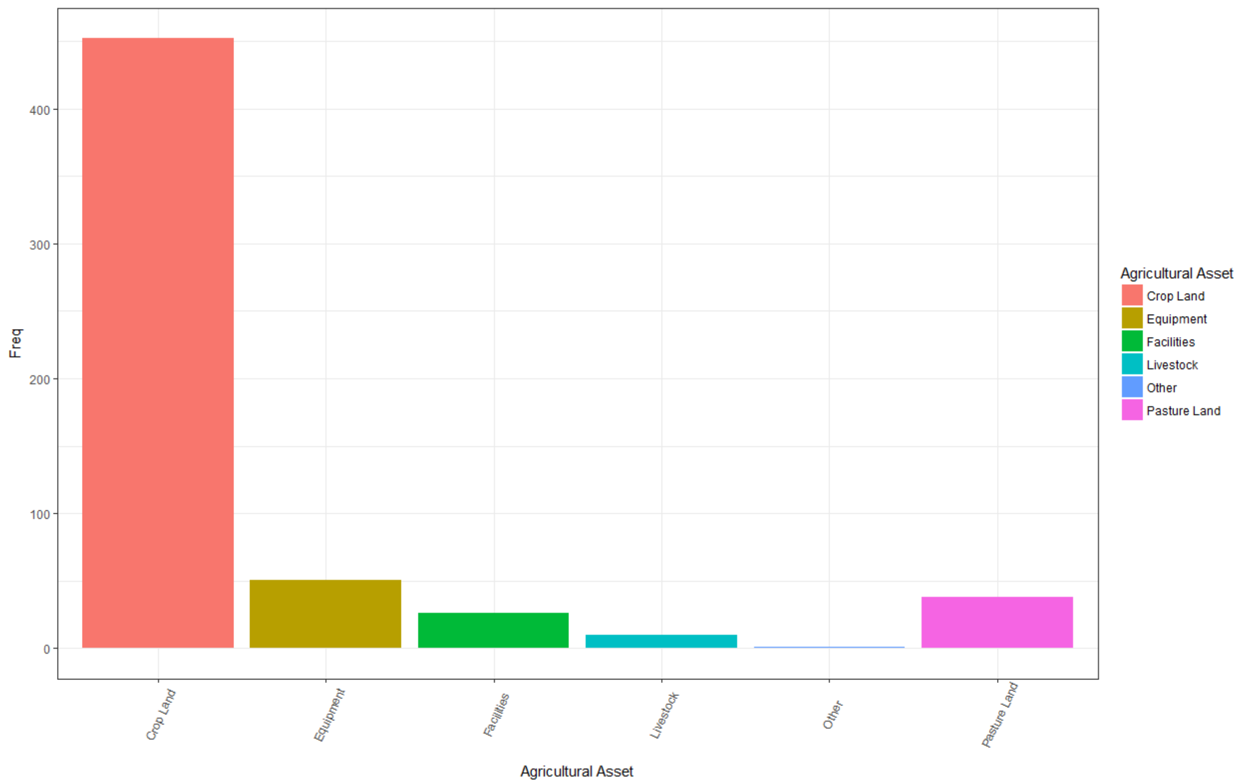

Figure 3: Agricultural Assets

Thus, in terms of marketing the program, it may prove very beneficial to highlight the benefits of leasing livestock, facilities, and equipment. Additional focus on efforts to push the use of this program for those specific assets could potentially increase the use among beginning farmers. Doing so would also help normalize this program in that context, for example, by having model leases available to beginning farmers and by offering education on the common types of assets already in use and potentially available to the neophyte farmer or rancher—all could help increase the use for these items and normalize their use in the program.

Types of Leases

This section explores the two types of leases are used in this program (Please see *Figure 4*).

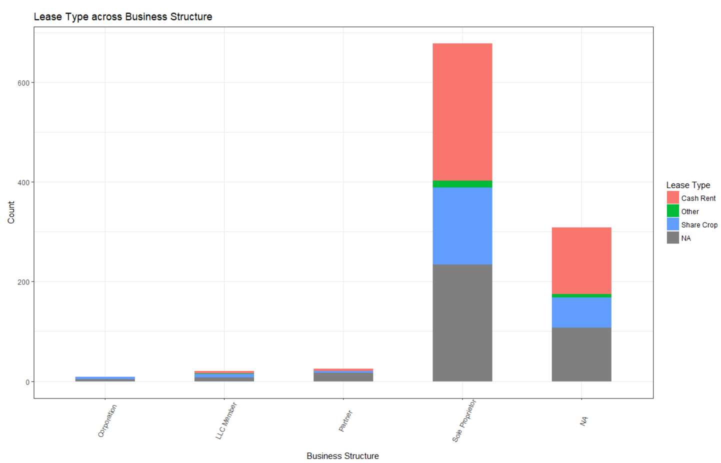

Figure 4: Types of Leases

Generally, there are two main types of leases used in this program: cash rent and a share agreement. A cash rent lease is an agreed upon set amount to rent the agricultural asset, usually for the year. Rent is usually paid in two installments: once at the beginning of the growing season and once again after the harvest with the proceeds from that year's crop. On the other hand, a share agreement is a rental agreement in which the principal consideration given to the owner of agricultural assets is a predetermined portion of the production of farm products from the rented agricultural assets. In regard to the NDA data, an "other" category is included. This category includes flexible leases, where the rent is dependent on the harvest and usually not established until after the crop is harvested for the year.

Previous applications in the program indicate that cash rent is still the type of lease that is used most for beginning farmers. Traditionally, cropland and pastureland are rented through a cash rent lease. This analysis supports this trend. In every year, except for 2013, cash rent lease made up the majority of leases approved by the board.

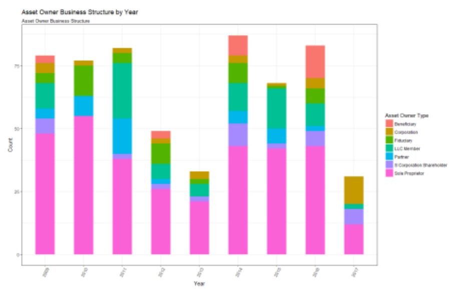

Figure 5: Business Structure by Year

Types of Business Structures.

Sole proprietorships are the most commonly used business structure for both beginning farmers and asset owners as can be seen from the graph presentations (Please see *Figure 4* and *Figure 5*). They by far exceed any other type of business structure used by farmers and ranchers enrolled in this program. Sole proprietorships are the easiest to establish. The next highest type of business structure was that of a Limited Liability Company (LLC). An LLC is a separate legal business structure that provides the individual with some liability protection.

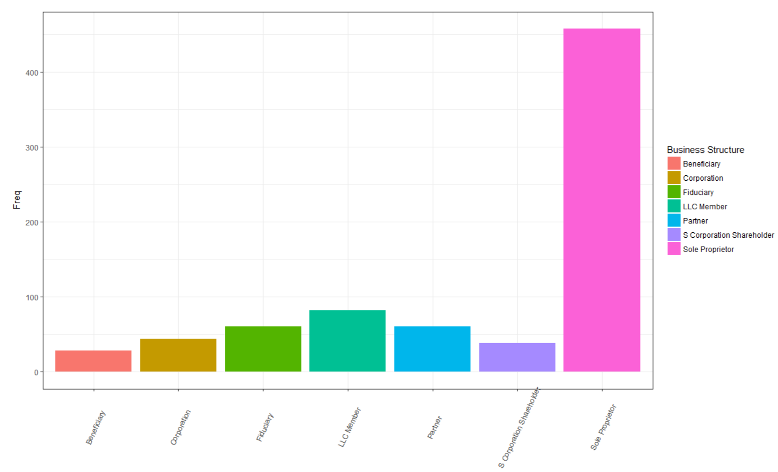

Figure 6: Business Structure

This business structure takes a little more management than a sole proprietorship as filings with the state and submitted reports are required. The sheer number of participants utilizing the sole proprietorship is alarming as it does open the farmer and rancher up to liability and debts if an accident were to occur, for example.

Lessons learned and the Future

As noted, from 1999 until 2009, data for this program was lacking. Although general trends can be established using data generated since 2009, there are large gaps of information missing regarding the first applications. Currently, the NDA is better at obtaining that data for the participants. As the program continues with this accumulated and detailed data set, it will be interesting to see if these same trends continue.

Women are the largest group of landowners in Nebraska. Moreover, women are also becoming a larger percentage of those starting to farm. This data set does not track the gender of either asset owners or beginning farmers or ranchers, which is a serious oversight. Tracking this and understanding women's participation both in start-up farming or, alternatively, as holders of assets which could be leased/purchased, would be very beneficial to understanding trends, and to provide data sets which are more accurate and representative of the farmer/ranchers who participate in this program. For example, research on gender might include such questions as: are women more likely to rent to other women? Are women more likely to rent to a non-relative over a relative? Which types of business arrangements and structures do women favor? What kind of asset classes do women already hold that could facilitate new farmer and rancher applicants interested in working with women farmers already in farming or ranching? Understanding this demographic could help tailor marketing campaigns directed at women. It may prove very worthwhile to target this specific demographic in the future.

One interesting insight from this analysis is that highlighting the importance business structures should be a focus for those who provide support to beginning farmers and rancher across the state. As indicated, the majority of beginners were operating as sole proprietors. This is not surprising since it is the easiest type of business to set up. It is outside the scope of this analysis, but one area to focus on would be encouraging beginning farmers to explore alternative available business structures as there are many benefits to setting up an entity, especially when liability issues are a large part of farming and ranching.

Another insight from this analysis is the lack of participation in the western/panhandle part of the state. This part of Nebraska is ranch and cattle country. As indicated in previous sections, this program is underutilized in the context of leasing livestock and pastureland. Leasing livestock is very beneficial to beginners, as they can build up their herd over time, and to the asset owners as they will receive the tax credit for those three years. Focusing on promoting the program to these producers and in this geographical region could increase participation in the program.

One barrier for some beginning farmers is the 10 acres minimum for agricultural land. Local food consumption has increased due to consumers wanting to know where their food comes from. Beginning farmers are finding it lucrative to grow produce for local markets, but farming ten acres of land would not be feasible for them. Tailoring this program to fit the needs of smaller producers would require a change in legislation, with its accompanying educational and bill writing activities. Until that time comes, and while this may not be practical to do, one area where these small holder farmers could benefit would be through an equipment or facility lease. Targeting these producers and highlighting the benefits to them in this context could be very beneficial.

Conclusion

This analysis aimed to provide a snapshot of the Nebraska NextGen Beginning Farmer Tax Credit Program. It shows that in the almost twenty years of the program, there have been many benefits given to both beginning farmers and asset owners in Nebraska. It indicates that the program is successful albeit not uniformly utilized across the state. It supports the findings of the survey of program participants conducted by the Nebraska Department of Agriculture. In that survey, the department found that "99% of the respondents were still farming, 84% have been able to make farming their main profession, and 87% were still farming the same asset that was enrolled in the NextGen program."[42] Nebraska agriculture supports the state. It is important to grow the next generation of beginning farmers. This program is a great resource to help the next generation sustain Nebraska's good life.

[42] Nebraska Department of Ag, NextGen Annual Report 2014-2015, available at http://www.nextgen.nebraska.gov/reports/annual_report_14_15.pdf