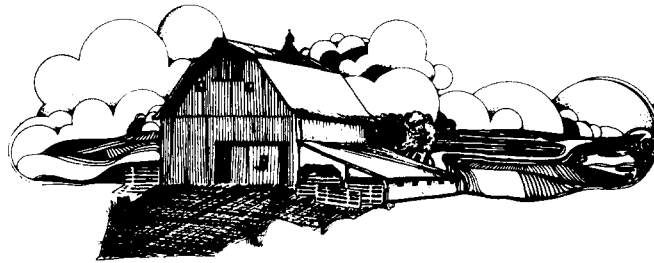


# Programs for Beginning Farmers in North Dakota



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Beginning farmers are essential if the family farm system of agriculture is to continue in the future. However, high land prices, high capital costs, and strong competition for buying and renting land make it very difficult for potential young farmers to get started in the farming business.

In North Dakota, several programs to encourage assistance to beginning farmers have been developed through action by the Legislature and state agencies.

The North Dakota Family Farm Committee has encouraged legislation and programs to assist beginning farmers. This Committee was formed in 1978 as an advisory group to the North Dakota Commissioner of Agriculture. In 1978, the committee, with assistance from the State Department of Agriculture and analytic assistance from the Cooperative Extension Service of North Dakota State University, conducted a survey of farmers who had started farming between 1972 and 1978.

This survey of beginning farmers identified characteristics and problems of beginning farmers. Most were between 21 and 32 years of age, with an average age of 25 years when they started farming. Nearly all were high school graduates; about 70 percent had some college training with about 30 percent being college graduates. Most had some family assistance in getting started in farming and about half were in partnership with a father, brother or other family member. Most owned part of their land, but rented more than was owned. They identified their major problems as high cost of land, lack of adequate credit and high interest costs. Other problems included high production costs relative to commodity prices. The majority of these beginning farmers were somewhat limited in size of operation and had cash flow problems associated with costs of starting their farm business. Many of these farmers and/or their wives had off-farm jobs. The priority goal of the majority was to expand their land base.

#### **BEGINNING FARMER ASSISTANCE ACTS**

In 1979, the North Dakota Legislature initiated a program of state income tax incentives to encourage selling and renting of farmland to beginning farmers. The 1981 Legislature increased these incentives. On March 26, 1981, Governor Allen Olson signed into law S.B. 2214, a bill designed to increase the state income tax benefits

for landowners who sell or rent farmland to beginning farmers. This bill also allows more farmers to qualify as beginning farmers under this program by raising the maximum net worth limitation. The tax incentive program contains three major provisions:

1. A landowner who enters into a **contract for deed** on the sale of 80 or more acres of farmland to a beginning farmer can exempt all of the interest income received on the contract from his North Dakota taxable income for the length of the contract. The contract for deed must extend for not less than 15 years at an interest rate equal to or less than the minimum rate allowed by the Internal Revenue Service.
2. A landowner who sells farmland consisting of 20 acres or more to a beginning farmer can exempt all of the income realized from the sale after capital gains treatment from his North Dakota taxable income for the year in which the sale occurred.
3. A landowner who rents land consisting of 20 acres or more to a beginning farmer on a lease of at least three years can exempt all of the rental income he receives up to a maximum of \$25,000 for each year of the lease from his North Dakota taxable income. Landowners will be disqualified if they break a lease with another person in order to take advantage of this act. The provisions of this Act apply to taxable years beginning on or after January 1, 1981.

#### **Beginning Farmer Definition**

For the purposes of these programs, a beginning farmer is defined as one who:

*\*Is a North Dakota resident.*

*\*Has a net worth, including property owned by his dependents and spouse, if any, of not more than \$100,000, except that, for figuring net worth, the beginning farmer need not include his house, his car or his household goods or other personal belongings.*

*\*Intends to use the land he wishes to purchase or rent for farming.*

*\*Receives more than half of his income from farming, unless he begins farming in the year for which a deduction will be claimed under this Act.*

*\*Has had adequate training, by education or experience, for the type of farming he wishes to begin.*

### **For More Information**

Persons desiring to use these programs to purchase or rent land should obtain an information form from the North Dakota Tax Commissioner for declaring net worth. Forms will be filed with the landowner's North Dakota income tax return for the year in which a deduction is claimed. For more information, contact the North Dakota Department of Agriculture or the North Dakota Tax Department, both in the Capitol Building in Bismarck.

### **NORTH DAKOTA BEGINNING FARMER LOAN PROGRAM**

The North Dakota Beginning Farmer Loan Program is a combined effort by the Bank of North Dakota and the Farmers Home Administration to provide 100 percent financing for purchases of farm real estate by beginning farmers. This program has been in effect since July, 1978.

The Bank of North Dakota is allowed to make loans by taking a first lien on farm real estate. FmHA will take a second mortgage when another lender, such as the Bank of North Dakota, is willing to loan a portion of the funds.

Under this program, a beginning farmer can purchase farmland with no down payment by borrowing up to 65 percent of the appraised value of the land from the Bank of North Dakota and the remainder from Farmers Home Administration. To be eligible for the program, a beginning farmer must:

- \* *Be a North Dakota resident.*
- \* *Purchase North Dakota farm real estate.*
- \* *Be an actual farmer and intend to remain a farmer.*
- \* *Spend more than 50 percent of his time working on the farm.*
- \* *Receive over 50 percent of his net family income from the farm.*
- \* *Have farm management experience.*
- \* *Be able to provide for his family and retire his debt by farming the land he intends to purchase.*

In addition to the 100 percent financing, the program contains two other key features:

- \* *For the first five years of the loan, the Bank may lend its portion of the money at 2 percent*

*less interest than the standard rate. The remaining 35 years would be at the standard interest rate, assuming a maximum 40 year loan.*

- \* *The Bank may defer the principal payment for the first two years of the loan by special request. These payments would be made at a later date.*

To apply for this program, contact your local county FmHA office, or for more information, contact the North Dakota Department of Agriculture.

### **SELLER-SPONSORED LOAN GUARANTEE PROGRAM**

The 1981 North Dakota Legislature enacted legislation which establishes a state program administered by the Industrial Commission to guarantee seller-sponsored loans (contracts for deed) made between landowners and beginning farmers. In case of default, the State of North Dakota will pay the landowner 90 percent of the sums due and payable under the terms of the contract.

The following conditions apply to contracts guaranteed under this program.

- \* *The contract must extend for a term of not less than 15 years.*
- \* *The contract must call for an annual interest rate equal to or less than the minimum rate allowed by the Internal Revenue Service before interest is imputed.*
- \* *The maximum dollar amount of any guarantee may not exceed \$250,000 on a loan secured by real property and \$125,000 on a loan secured by personal property.*

For the purposes of this Act, a beginning farmer is one who:

- \* *Is a North Dakota resident.*
- \* *Has a net worth, including property owned by his dependents and spouse, if any, of not more than \$100,000, except that, for figuring his net worth, the beginning farmer need not include his house, his car or his household goods or other personal belongings.*
- \* *Receives more than half of his income from farming, unless he begins farming in the year in which the guarantee is sought.*

\* *Has had adequate training, by education or experience, for the type of farming he wishes to begin.*

For more information about the program, contact the North Dakota Department of Agriculture at the Capitol in Bismarck or call (701) 224-2231.

### **THE NORTH DAKOTA AGRICULTURAL DEVELOPMENT ACT**

The 1981 North Dakota Legislature has established a new agricultural lending program with the enactment of S.B. 2368, the North Dakota Agricultural Development Act. Through this legislation, the Industrial Commission is empowered, as of July 1, 1981, to issue tax-exempt revenue bonds for the purpose of providing below-market interest rate loans to resident farmers and ranchers. The loans may be used to acquire farm real estate, farm equipment and other depreciable personal property used in farming or ranching, but may not be used to provide production loans or refinance existing indebtedness.

Under the provisions of this Act, the farm operator deals directly with a local lender. This can be a bank, PCA, Federal Land Bank, Credit Union, savings and loan association or any other qualified lender. If the local lender approves the loan application, a loan guarantee is sought from Farmers Home Administration, Veterans Administration or any other qualified guarantor.

With the approval from the local lender and the loan guarantee, the loan is then transferred to the state fund, allowing the local lender to place most of the money back into use for other area needs.

For more information about the North Dakota Agricultural Development Act, contact the Bank of North Dakota in Bismarck (1-800-472-2166) or the North Dakota Department of Agriculture at the Capitol (224-2231).

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