

# MISSOURI AGRICULTURAL AND SMALL BUSINESS DEVELOPMENT AUTHORITY

## Beginning Farmer Tax Deduction Program

Guidelines and Procedures  
Section 1

Legal Authorization: Chapter 143.121 RSMo (2023)

### A. PURPOSE OF THE PROGRAM

Purpose: MASBDA will provide a certification to a qualifying beginning farmer and farm owner which may be used by the farm owner to apply to the Missouri Department of Revenue for a deduction from Missouri adjusted gross income.

### B. DEFINITIONS

Beginning Farmer is a taxpayer who:

- a. Has filed at least one but not more than ten Internal Revenue Service Schedule F (Form 1040) Profit or Loss from Farming forms since turning eighteen years of age; **or**
- b. Is approved for a beginning farmer loan through the USDA Farm Service Agency Beginning Farmer direct or guaranteed loan program; **or**
- c. Has a farming operation that is determined by the Missouri Department of Agriculture to be new production agriculture but is the principal operator\* of a farm and has substantial farming knowledge (\*note, for a Beginning Farmer to be considered the principal operator, he or she must be responsible for the day to day management decisions of the farmland, and is not leasing the farmland to another person or entity who will be responsible for making day to day management decisions); **or**
- d. Has been determined by the Missouri Department of Agriculture to be a qualified family member.

Farmland: real property for sale, rent, lease, or under a crop-share arrangement, and primarily used for, or suitable for, the cultivation and sale of crops (including forestry, fruit/nut trees and horticulture), raising and sale of livestock or poultry (including aquaculture), including the sale of products from such crops, livestock, or poultry.

Farm Owner is an individual (including an entity that is disregarded, for tax purposes, as separate from the individual) who owns farmland and disposes of or relinquishes use of all or some portion of such farmland as follows:

- a. A sale to a beginning farmer; or
- b. A lease or rental agreement not exceeding ten years with a beginning farmer; or
- c. A crop-share arrangement not exceeding ten years with a beginning farmer.

**Production Agriculture:** the active cultivation of farmland with the intent of sale through marketing or distribution channels or direct sale to the public.

**Qualified family member** is “an individual who is related to a farm owner within the fourth degree by blood, marriage, or adoption and who is purchasing or leasing or is in a crop-share arrangement for land from all or a portion of such farm owner’s farming operation.”

### **Missouri Ethics Commission Relationship Chart**

#### **C. AMOUNT OF DEDUCTION**

A farm owner who sells farmland to a beginning farmer may subtract from his/her Missouri adjusted gross income an amount, to the extent included in federal adjusted gross income, equal to the portion of capital gains received from the sale of such farmland that such farm owner receives in the tax year for which such owner subtracts such capital gain according to the following:

Capital Gain Amount:	Percentage of Capital Gains Deduction:
The first \$0 - \$2 million	100% deductible
The next \$1,000,000 (\$2,000,001 - \$3,000,000)	80% deductible
The next \$1,000,000 (\$3,000,001 - \$4,000,000)	60% deductible
The next \$1,000,000 (\$4,000,001 - \$5,000,000)	40% deductible
The next \$1,000,000 (\$5,000,001 - \$6,000,000)	20% deductible

A farm owner who rents, leases, or enters into a crop-share arrangement, (not exceeding 10 years) with a qualified beginning farmer can reduce his/her Missouri adjusted gross income (cash rent income, in the case of a lease) equal to the amount of income received by the farm owner under the agreement to the extent included in federal adjusted gross income, up to \$25,000 per tax year.

#### **D. APPROVAL PROCESS**

1. For the farm owner to receive the certification required to apply for the gross income deduction, the application (Form BFC) must be completed and signed by both the Beginning Farmer and the Farm Owner with the required information included.

The application form must be accompanied by the following documentation:

For Beginning Farmer Certification:

1. A copy of the most recent IRS Schedule F (Form 1040) Profit or Loss from Farming,  
**or**
2. A copy of the USDA Farm Service Agency (FSA) approval for a direct beginning farmer loan or a guaranteed farm loan, **or**

3. A letter confirming the Beginning Farmer's intent to be the principal operator of the farm purchased/leased and responsibility for day to day management decisions, and the level of farming knowledge of the Beginning Farmer from a primary lender, landlord, current/previous farm employer if employed by a farm owner, agricultural service provider, etc, **or**
4. A certification by the Beginning Farmer that the familial relationship with the Farm Owner is within the fourth degree by blood, marriage, or adoption

**For Farm Owner Certification:**

1. For Certification Related to the Sale of Farmland:
  - a. Copy of the sales contract, signed and dated by both parties
  - b. Copy of the final settlement statement confirming the transaction has taken place
  - c. Copy of legal description (if not included with a or b above), documenting the farmland is located in Missouri.
2. For Certification Related to the Rental/Lease/Crop-Share Agreement of Farmland:
  - a. Copy of the rental/lease/crop-share agreement signed and dated by both parties, clearly stating:
    - i. Beginning and end date
    - ii. Financial arrangement (annual rental/lease payment, crop-share arrangement)
    - iii. Process of renewal or extension
    - iv. Process of cancellation by either party
  - b. This certification will be valid for one year and must be renewed annually (not to exceed 10 years) (see below) to confirm the rental/lease/crop-share arrangement is still in effect.

<b>E. ISSUANCE OF THE CERTIFICATION - FOR A SALE TO A BEGINNING FARMER</b>
--

The Authority will verify the information provided during the application process and provide a certification to the Farm Owner. The Beginning Farmer and the Missouri Department of Revenue will also be provided a copy of the certification, but to receive the deduction, it is the responsibility of the Farm Owner to provide the certification to the Missouri Department of Revenue when filing their tax return (**Form MO-5955**)

A Contingent Certification letter may be issued to the Farm Owner prior to the actual sale or lease of the farmland, if all documentation from both the Beginning Farmer and Farm Owner are provided with the application (including the application fee), with the exception of the real estate settlement statement. Once the closing documentation is received, the Certification will be approved and provided to the Farm Owner, Beginning Farmer, and the Missouri Department of Revenue.

<b>F. ANNUAL CERTIFICATION – FOR A LEASE OR CROP-SHARE ARRANGEMENT WITH A BEGINNING FARMER</b>
--

To certify a multi-year rental/lease agreement or a crop-share arrangement is still in effect, a verification form (provided by the Authority) signed by both the beginning farmer and farm

owner, included a current copy of the lease/crop-share arrangement must be submitted to the Authority on an annual basis. Upon receipt of the verification form, an updated twelve month certificate will be issued to the farm owner.

## **G. FEES**

A \$300 non-refundable application fee is due at the time of initial application for certification for the purchase of farmland

A \$200 non-refundable application fee is due at the time of initial application for certification for a lease arrangement or cost-share arrangement

A \$100 certification fee is due on an annual basis in the case of a rental/lease agreement or cost-share agreement arrangement

## **H. RECORDS, AUDIT, & ACCOUNTABILITY**

**1. The Authority is authorized by Section 348.181 RSMo, to keep the following closed to the public:**

- a. Records and documents submitted which relate to financial investments in a business, or sales projections or processes or other business plan information which may endanger the competitiveness of a business, and
- b. Records and documents submitted related to financial assistance that is awarded by the Authority except for the amount and recipient of any loan or grant from a program administered by the authority.

**2. Audit:** The Authority reserves the right to audit approved Beginning Farmers and Farm Owners to ensure compliance with program requirements for a period of seven years from the date of the certification.

## **H. SUBMISSION OF INFORMATION**

Missouri Agricultural and Small Business Development Authority  
Beginning Farmer Tax Deduction Program

P.O. Box 630  
1616 Missouri Blvd.  
Jefferson City, MO 65102-0630

Telephone: (573) 751-2129  
Fax: (573) 522-2416  
E-mail: [masbda@mda.mo.gov](mailto:masbda@mda.mo.gov)  
[www.masbda.com](http://www.masbda.com)