Nebraska Beginning Farmer Tax Credit Act: Performance on Selected Metrics

Performance Audit Committee
Nebraska Legislature

June 2025

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I. Audit Summary & Committee Recommendations

Audit Summary and Committee Recommendations

This section contains a brief summary of the use of the program, the audit findings and results, and the Legislative Performance Audit Committee's recommendations.

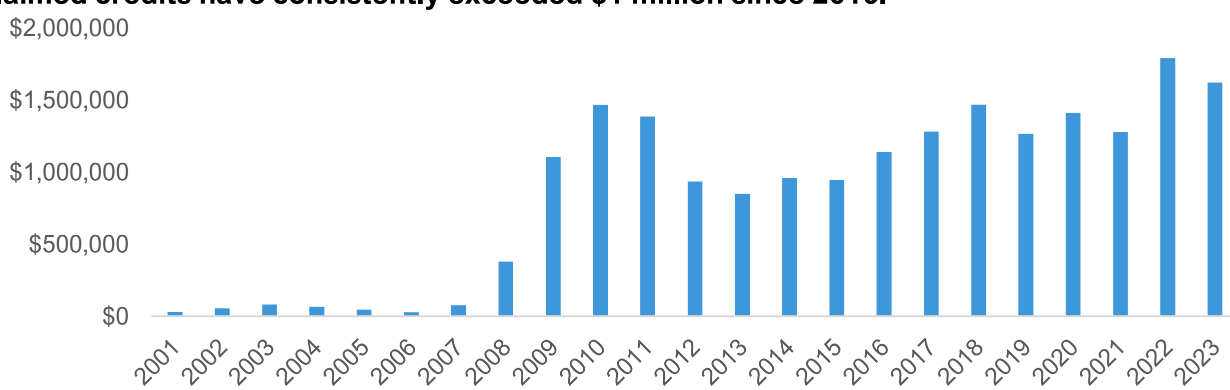
Beginning Farmer Tax Credit Act

The Beginning Farmer Tax Credit Act was enacted in 1999 to provide assistance to individuals seeking to enter farming to ensure that smaller farming entities remained a robust part of the state's economy. The program encourages beginning farmers to rent land or equipment from current farmers/asset owners.

An asset owner who leases land, equipment, facilities, or livestock to a qualified beginning farmer receives a 10%-15% refundable tax credit on the value of the lease for a maximum of three years. A qualified beginning farmer can receive a property tax exemption for up to three years, a one-time refundable tax credit for the reimbursement of a required financial management program, and access to the leased assets. Asset owners receive more tax credits than beginning farmers because credits related to leases are larger than those of the financial management program reimbursement or personal property tax exemption.

The program is administered by the Department of Agriculture, which tracks program participation by assigning a case number based on the lease agreement or other activity that the beginning farmer engages in. Since the beginning of the Beginning Farmer program, almost $19.7 million in credits have been issued to asset owners. Although credits allocated per year have never reached the $2 million cap, the program has consistently awarded over $1 million in recent years. In 2022 and 2023, more than $1.5 million was awarded each year.

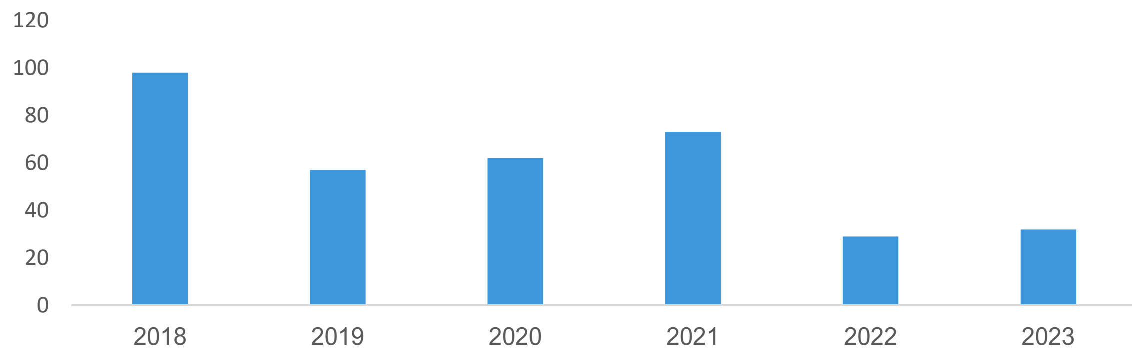
Claimed credits have consistently exceeded $1 million since 2016.



Source: Audit Office analysis of Department of Agriculture data.

From 2018 to 2023, 394 asset owners participated in 345 lease agreements. During this period, the number of new cases each year has generally declined.

The number of new cases has generally decreased since 2018.



Source: Audit Office analysis of Department of Agriculture data.

Just over $8.8 million in credits were allocated for 292 cases from 2018 to 2023, resulting in an average tax credit of $25,631 per case. More than half of all cases (60%) received between $5,000 and $25,000; two awards were over $500,000.

More than half of all cases received between $5,000 and $25,000 in credits.

Credit Amount	Number of Cases 2018-2023*	Percentage of Total
$0-$1K	1	<1%
$1K-$5K	26	9%
$5K-$10K	63	22%
$10K-$25K	110	38%
$25K-$50K	54	18%
$50K-$100K	25	9%
$100K-$500K	11	4%
$500K+	2	1%

Source: Audit Office analysis of Department of Agriculture data.
*Only includes cases that earned credits.

Audit Outcomes

The report contains two types of outcomes from our analyses: findings and results. When there is a standard to compare the product of the analysis against, we present a finding; when there is no standard, we present results. For the metrics used to assess the Beginning Farmer program in Section II of the report, there were no findings because the statutes do not contain standards to compare the program's activity against and assess whether the program's results are meeting policymakers' expectations.

Audit Finding

Internal Controls (p. 17):

Finding: Current Beginning Farmer program practices may not be sufficient for 1) ensuring that participants are aware of their responsibilities, 2) informing the agency/Beginning Farmer Board of the current status of lease agreements, and 3) informing the agency/Beginning Farmer Board of changes in the qualification status of beginning farmers related to continued participation and property tax exemptions. This introduces some risk that the program could provide benefits outside of statutory intent.

Recommendation: The Department of Agriculture should contact participants in active cases prior to the Beginning Farmer Board's annual case review. This contact should be used to 1) remind all participants of their responsibilities under the Act and Rules and Regulations; and 2) to ascertain information necessary for the Board to make informed judgements while performing their duties under Neb. Rev. Stat. § 77-5213.

At minimum, this contact should remind participants that:

- The Board needs to be informed about changes in the rental agreement's status
- Beginning farmers are required to perform the day-to-day physical labor and management of their operation (77-5209)
- Beginning farmers certified for the property tax exemption are required to maintain farming or livestock production in order to continue receiving the exemption (77-5902.02)
- Beginning farmers certified for the property tax exemption are required to apply to their county assessor in order to receive the exemption (77-5902.02)
- Beginning farmers certified for the property tax exemption are required to provide appropriate documentation to their county assessor for each year they wish to receive the exemption (77-5902.02)
- If agricultural assets are sold during the three-year term of the rental agreement, the new owner and agreement must be qualified in order to receive tax credits (91 NAC 007.02C)

At minimum, this contact should ascertain the following information related to their responsibilities for each active case:

- Current status of lease agreements
- Current ownership status of all agricultural assets
- Current status of each Beginning Farmer's qualifications to participate
- Whether or not each Beginning Farmer with certification for the property tax exemption is still engaged in farming or livestock production.

This recommendation can be implemented through amending agency procedures.

Audit Results

SECTION I

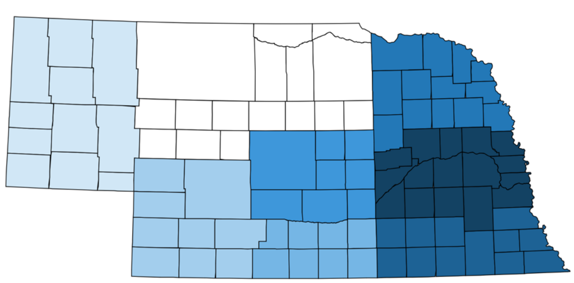
Geographic Distribution of Credits (pp. 9-11):

Result: Counties in eastern and southern parts of the state received more Beginning Farmer tax credits than others. This follows geographic patterns of crop production versus livestock production and holds when adjusting for population.

Recommendation: If the Legislature wants Beginning Farmer tax credits to be more equitably distributed around the state, it should consider strategies for increasing participation by producers renting livestock and pastureland and targeting more northern and western counties.

The Legislature could explore options such as increasing the percentage of credit for renting these asset types or increasing program awareness in areas that have seen few credits.

Almost 75% of credits awarded to Nebraska residents between 2018 and 2023 went to counties in eastern agricultural districts.



USDA District	Credits 2018-2023*
EAST	$3,001,900
SOUTHEAST	$1,558,530
NORTHEAST	$1,403,443
CENTRAL	$962,410
SOUTH	$681,151
SOUTHWEST	$377,475
NORTHWEST	$64,784
NORTH	$1,579
All	**$8,051,271**

Source: Audit Office analysis of Department of Agriculture information.
*Only includes those credits awarded to Nebraska asset owners

Demographic Information (pp. 13-14):

Result: While a beginning farmer's age is not an explicit criterion for program participation, there was discussion during debate on the bill about helping younger individuals. Although it was not required, 149 beginning farmers filled in the optional age field on at least one application. The vast majority of the farmers who participated and reported their ages were under 35 years old.

Program information did not include other demographic information such as gender and race. These are not included as fields in application documents.

Recommendation: If the Legislature would like more comprehensive and complete demographic information about participants, it may need to require that information to be collected.

The majority of beginning farmers that reported their ages from 2018 to 2022 were between 25 and 34 years old.

Age Group	Number of Beginning Farmers
24 and under	56
25 – 34	84
35 – 44	14
45 – 55	1
All	**155***

Source: Audit Office analysis of Department of Agriculture data.

Other States' Policies for Assisting Beginning Farmers (p. 15):

Result: Beginning farmer tax credits are one of several types of state level policies aimed at helping young and beginning farmers access land and get started in the farm economy. Nebraska was the first state to enact a state level program by providing tax credits on lease agreements. In 2017, Minnesota became the first state to use tax credits to incentivize the sale of land to beginning farmers. Delaware and Maryland pioneered a version of this type of incentive called Farmland Purchase and Protection Incentives. These programs help young and beginning farmers buy land by offering zero-interest loans. The state then ensures that the land is preserved for agricultural use in perpetuity.

Recommendation: If the Legislature wishes to expand assistance to beginning farmers and ranchers, it should explore the use of tax credits and other policies to incentivize sales of farmland to young and beginning farmers and ranchers.

SECTION II

Preventing Conversion: To what extent is the Act retaining existing and established farm operations? (pp. 21-22)

> **Results:** One of the goals of the Beginning Farmer Tax Credit Act was to retain land for agricultural use and to prevent that land from being converted to non-agricultural use. We found that the vast majority of land involved in the program does not appear to have been under threat of conversion. For the plots of land that we examined, none were converted to any other use. A few of the rented properties were in locations that could be targets for conversion to residential areas, based on their proximity to growing communities. It is likely that the program has had little, if any, impact on conversion in the last decade.

Transferring Land to Beginning Farmers: To what extent is the Act helping transfer land from older independent farmers to younger independent farmers? (pp. 23-24)

> **Results:** We identified 335 beginning farmers who participated in the program during application years 2014 to 2021. Just over half were confirmed to be current agricultural landowners. Twenty beginning farmers currently own at least some of the land that they rented through the program.

Preventing Consolidation: To what extent is the Act preventing large landowners and corporations from acquiring land from independent farmers? (pp. 25-26)

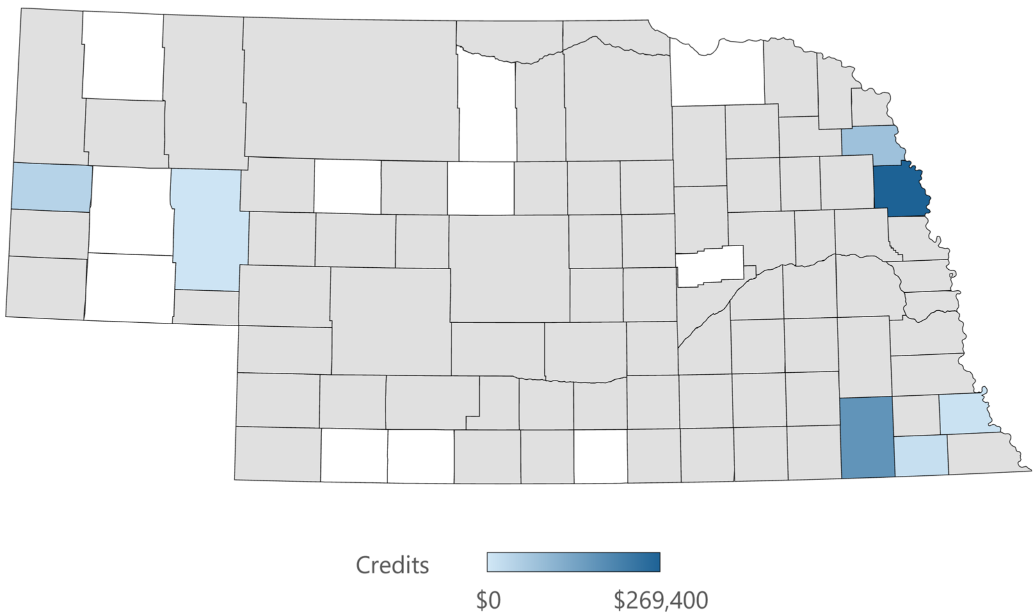
> **Results:** We identified 10 large landowners—those that own more than 1,000 acres—who currently own parcels of land that were rented through the program and are now under new ownership. Five of the ten are family LLCs, the rest are owned by individuals. The vast majority of land rented through the program is still owned by the asset owner that earned credit. None of the land is currently held by large corporations.

Distressed Areas Activity: Is the Act meeting the goal of revitalizing rural and other distressed areas of the state? (pp. 27-30)

> **Results:** From 2018 to 2023, Nebraska residents received about $8 million in Beginning Farmer tax credits. Counties in the most distressed areas received the fewest tax credits. Of the 18 most distressed counties in Nebraska, only 7 counties received program credits, totaling just over $580,000. Eleven of the 18 most distressed counties received no program credits.

Discussion: To determine distressed areas for this audit, we used a more comprehensive method than used in previous reports. This method ranks counties based on the unemployment rate, median household income, and the poverty rate rather than relying only on unemployment rates.

Only seven of the eighteen most distressed counties in the state received credits.



Source: Audit Office analysis of Department of Agriculture data.

Impact on Budgets of Local Governments: How did the Act impact budgets of local governments? (pp. 31-33)

Results: From 2018 to 2023, local governments saw at least $80,000 in reduced property tax revenues due to the program. The actual figure is likely a bit higher than $80,000 due to some exemption information that was not identified.

Recommendation: If the Legislature wants more complete and precise information about property tax benefits provided to beginning farmers, it may need to require that information to be provided to the Department of Revenue.

Cost to Administer: How much did it cost to administer the Act? (p. 34)

Results: From FY2018 and FY2024, the cost to administer the Beginning Farmer Tax Credit Act was about $518,000.

Fiscal Protections: Are adequate protections in place to ensure the fiscal impact of the Act does not increase substantially beyond the state's expectations in future years? (pp. 35-36)

> **Results:** The Beginning Farmer Tax Credit Act Program meets five of the nine Pew Charitable Trusts recommendations to reduce budget risks. The program has adequate fiscal protections largely due to the $2 million annual cap on tax credits.

II. Legislative Audit Office Report

Legislative Audit Office Report

Nebraska Beginning Farmer Tax Credit Act: Performance on Selected Metrics

June 2025

Prepared by
Anthony Circo
William Hertzler

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INTRODUCTION

The Legislative Audit Office is required to review eight business tax incentive programs on a regular schedule. In 2018, the Performance Audit Committee released the first audit report on the Beginning Farmer Tax Credit Act. This report contains the results of the Audit Office's second audit of the program.

Nebraska Beginning Farmer Tax Credit Act

The Beginning Farmer Tax Credit Act (Beginning Farmer Act or Act) was enacted in 1999 (LB 630) to provide assistance to individuals seeking to enter farming to ensure that smaller farming entities remained a robust part of the state's economy. While the Act applies to beginning farmers and beginning livestock producers, in this report we use the term "beginning farmer" to refer to both.

The Beginning Farmer program encourages beginning farmers to rent land or equipment from current farmers/asset owners. An asset owner who leases land, equipment, facilities, or livestock to a qualified beginning farmer receives a refundable tax credit equal to either 10% or 15% of the lease each year depending on the type of lease, for a maximum of three years. A qualified beginning farmer can receive a property tax exemption, for up to $100,000 in valuation, for a maximum of three years; a one-time refundable tax credit for the reimbursement of a required financial management program; and access to the leased assets.

The program, which has an annual cap of $2 million, is overseen by the Beginning Farmer Board (Board), which is housed within the Department of Agriculture for administrative purposes. The Board is responsible for approving applications, certifying eligibility of participants, and authorizing credit distribution. Its members include the Director of Agriculture or their designee, the Tax Commissioner or their designee, a representative of agricultural lenders, an expert on agricultural economics, and three agricultural producers with varied profiles based on farm size, location, net worth and production interests.

Measuring Effectiveness

As the Audit Office (Office) has noted in previous reports, it is difficult to determine whether Nebraska's tax incentive programs are effective because there are not clear goals or specific measures of success in the programs' statutes. To address this issue, the Tax Incentive Evaluation Committee, created by the Performance Audit Committee's LR 444 (2014), identified metrics for tax incentive performance audits. In 2015, the Legislature required the Office to perform ongoing tax incentive audits, adding audit metrics to the Legislative Performance Audit Act.

During the audit planning process, the Office determines which metrics should be used based on the program being audited and the program data available. The Office identified the following metrics to assess the Beginning Farmer Tax Credit Act.

Nebraska Beginning Farmer Tax Credit Act Audit Metrics

Source	Description
SECTION I	
Audit Act	Participation, Credits
Beginning Farmer Act Legislative History	Demographics, Other States' Policies
Auditing Standards	2018 Report Recommendation Follow-Up, Internal Control
SECTION II	
Beginning Farmer Act	Preventing Conversion
Beginning Farmer Act	Transferring Land to Beginning Farmers
Beginning Farmer Act	Preventing Consolidation
LR 444	Distressed Areas Activity
Audit Act	Impact on Budgets of Local Governments
LR 444	Cost to Administer
Audit Act	Fiscal Protections

Report Organization & Acknowledgements

Section I describes the Beginning Famer program and provides general descriptive information about participation and credit use. Section II contains our analysis of the selected metrics.

The Office extends special thanks to Brent Davis, Operations Director, Hilary Maricle, Deputy Director, Holle Evert, Program Administrator, Samantha Smith, former Program Administrator, Department of Agriculture, and Garrett Nedved, Department of Revenue.

Auditing Standards Compliance Statement

We conducted this performance audit in accordance with generally accepted government auditing standards, with two statutory exceptions regarding continuing education hours and peer review frequency. As required by auditing standards, we assessed the significance of noncompliance on the objectives for this audit and determined there was no impact.[1] The exceptions do not change the standards requiring that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives. The methodologies used are described briefly in each section.

[1] Neb. Rev. Stat. § 50-1205.01.

SECTION I: The Beginning Farmer Tax Credit Program

In this section, we describe the Beginning Farmer Tax Credit program and provide information collected by the Department of Agriculture on basic program use. We also follow-up on previous audit recommendations and report on policy issues identified during the audit process. Unless otherwise noted, we analyzed program information from 2018 to 2023. For information prior to 2018, see our previous Beginning Farmer Tax Credit audit report.[2]

Beginning Farmer Tax Credit: Program Basics

- Created in **1999**
- Annual program cap: **$2 million**
- Provides **credits to property owners** renting to beginning farmers
- Qualified beginning farmers have farmed for **fewer than 10 of the last 15 years**
- Sunsets at the end of **2027**

Program Qualifications and Benefits

As noted in the Introduction, two parties are eligible for benefits under the Beginning Farmer Tax Credit Act (Beginning Farmer Act or Act): the beginning farmer and the asset owner.

Beginning Farmer

The Beginning Farmer Act requires a beginning farmer applicant to meet the following criteria:

- Be a Nebraska resident
- Have a net worth of less than $750,000 (indexed to the 2022 Producer Price Index)
- Demonstrate profit potential and the intention to make the operation their principal source of income
- Provide the majority of day-to-day physical labor and management of their farming operation
- Have adequate experience as determined by the Beginning Farmer Board (Board)
- Demonstrate a need for assistance
- Submit a nutrient management and soil conservation plan
- Be of age to legally enter into contracts
- Participate in an approved financial management program

The Department of Agriculture (Department) also limits beginning farmers to those who have operated a farm or produced livestock for fewer than 10 of the last 15 years.

[2] Nebraska Legislature, Performance Audit Committee, *The Beginning Farmer Tax Credit Act: Performance on Selected Metrics*, November 2018.

Program Benefits

For **Beginning Farmers**

- Personal Property Tax Exemption on **up to $100,000** of valuation for 3 years
- Refundable credit of **up to $500** for financial management course

For **Asset Owners**

- Refundable credit of **10%-15%** of the value of a 3-year lease to beginning farmer

If approved, the beginning farmer is allowed two tax benefits under the program. First, the beginning farmer is eligible for a personal property tax exemption of up to $100,000 in property valuation for agricultural and horticultural machinery and equipment for a period of three years.

Second, the beginning farmer may receive a one-time refundable personal income tax credit, up to $500, for the cost of participation in a statutorily required financial management course. A beginning farmer may also apply and receive the property tax exemption and $500 course credit without entering into a lease.

Asset Owner

To qualify under the program, the asset owner must commit to a lease with the beginning farmer for at least three years. While the lease can continue beyond that time period, the asset owner can only receive a tax credit for those three years.

Eligible assets that can be leased to the beginning farmer under the program include cropland, livestock operations, machinery used for both farming and livestock operations, and/or the facilities required for farming and livestock production. Asset owners are not required to be Nebraska residents but the property rented must be located in the state.

The rental rate set in the agreement between the asset owner and beginning farmer must be at prevailing community rates as determined by the Beginning Farmer Board. Once an asset has been approved under the program and earned credits for the owner for a full three years, it is no longer eligible for further participation, either with a subsequent lease or another beginning farmer.

An asset owner renting to an approved beginning farmer is eligible for a refundable tax credit of 10% or 15% of the value of the lease, depending on the type of agreement. Cash rent agreements for specified yearly rental amounts receive 10%. Share rent agreements, in which the asset owner receives a percentage of the beginning farmer's production, earn a 15% credit.

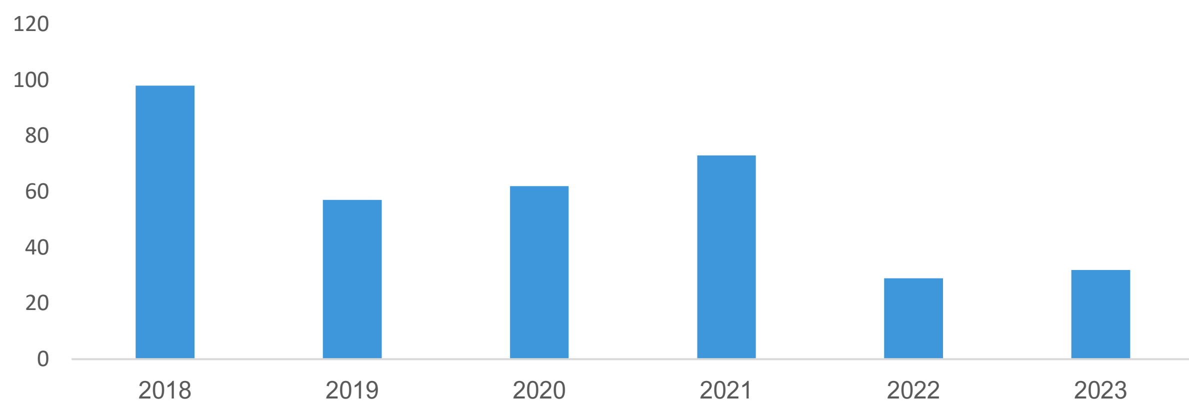
Program Participation

There are two types of cases, those where the beginning farmer participates in a lease with an asset owner and those where the beginning farmer participates on their own. Cases are typically organized around lease agreements if there is a leased asset.[3]

There are two ways a Beginning Farmer can participate:

The Department tracks program participation by assigning a case number based on the lease agreement or other activity that the beginning farmer engages in. From 2018 to 2023, the Department recorded 351 cases. During this time period, the number of new cases has generally declined (Figure 1.1.).

Figure 1.1. The number of new cases has generally decreased since 2018.



Source: Audit Office analysis of Department of Agriculture data.

In 91 cases (26%), the beginning farmer was certified for the personal property tax exemption for property they owned. There were only four cases where a beginning farmer applied for the property tax exemption and did not also have a lease. Twenty-one beginning farmers claimed the financial management program credit for a total of $5,642.

During this period, 394 individuals or companies participated as asset owners in 345 lease agreements. They rented land to 226 individual beginning farmers. The number of asset owners and beginning farmers differ from the number of cases because for any case, there can be multiple asset owners or beginning farmers. Beginning farmers are allowed to have

[3] There has been at least one case with multiple lease agreements. Cases can also be for only a personal property tax exemption, but this does not happen often. Two cases were withdrawn.

multiple leases with different asset owners and asset owners can also rent out to multiple beginning farmers (as long as the same assets are not rented more than once).

Types of Leases

The Beginning Farmer program authorizes three types of leases that asset owners can use to qualify for credits. The first is a standard cash rental agreement, where a beginning farmer pays a pre-arranged amount of money to rent land, equipment, or livestock. As stated previously, cash rent agreements earn a 10% credit to the asset owner.

The second is a subtype of cash rent called flex rent, where a base amount is paid but the agreement allows for variation of final costs based on bonuses or other stipulations. Flex rent agreements also earn 10% credit to the asset owner, but only on the base rent. Other terms of flex rent agreements, such as bonuses, do not earn credits.

The third lease type is a share rent agreement. For these types of agreements, the beginning farmer and asset owner decide how much of the beginning farmer's production will go to each party, but estimates for the value of production must meet Board requirements and use an approved method. Credit amounts are predetermined based on the estimate. The asset owner receives a 15% credit on the estimated value of their portion of the expected yield.

Standard cash rent agreements are the most popular types of leases used in the program, followed by share rent and then flex rent (Figure 1.2). During the examination period, there were 198 cases that used cash rent, 111 that used share rent, and just 20 that used flex rent agreements.[4]

Figure 1.2. Cash rent leases were the most common lease type in each year.

Year	Lease Type*		
	Cash	Flex	Share
2018	57	1	33
2019	37	6	13
2020	36	1	18
2021	41	4	25
2022	15	4	10
2023	12	4	12
All	**198**	**20**	**111**

Source: Audit Office analysis of Department of Agriculture data.
*Some cases in the database did not include lease types; no case that omitted lease types received credits.

[4] One case from 2020 has both a flex rent and a share rent lease.

Credit Use

Under the Beginning Farmer program, asset owners receive more tax credits because credits related to leases are larger than those of the financial management program reimbursement or personal property tax exemption the beginning farmers may receive. Since the beginning of the program, almost $19.7 million in credits have been issued to asset owners (Figure 1.3).[5] Although credits allocated per year have never reached the $2 million cap, the program has consistently awarded over $1 million in recent years. In 2022 and 2023, more than $1.5 million was awarded each year.

Figure 1.3. Asset owners were allocated over $1 million in credits every year since 2016.

Year	Total Credits
2001	$29,963
2002	$55,310
2003	$81,580
2004	$66,298
2005	$46,604
2006	$26,883
2007	$76,782
2008	$379,485
2009	$1,104,365
2010	$1,468,622
2011	$1,387,906
2012	$935,656
2013	$850,493
2014	$961,090
2015	$947,904
2016	$1,140,155
2017	$1,283,003
2018	$1,470,194
2019	$1,266,626
2020	$1,412,692
2021	$1,279,174
2022	$1,791,418
2023	$1,622,732
All	**$19,684,935**

Source: Audit Office analysis of Department of Agriculture data.

[5] Figures for certain years do not match figures from Beginning Farmer Annual Reports. Figures in this report use information pulled directly from the tracking database, which may have been updated in the years since they were first reported by staff who are no longer at the Department. The differences were not large or concerning to auditors and may reflect double counts of some credits due to the way the information was pulled and analyzed.

Credits by Case

As previously discussed, 394 asset owners participated in 345 lease agreements between 2018 to 2023. During this period, the Department allocated just over $8.8 million in credits for 292 cases, resulting in an average tax credit of $25,631 per case. More than half of all cases (60%) were allocated a total of between $5,000 and $25,000 (Figure 1.4). Two awards were over $500,000.

Figure 1.4. More than half of all cases received between $5,000 and $25,000 in credits.

Credit Amount	Number of Cases 2018-2023*	Percentage of Total
$0-$1K	1	<1%
$1K-$5K	26	9%
$5K-$10K	63	22%
$10K-$25K	110	38%
$25K-$50K	54	18%
$50K-$100K	25	9%
$100K-$500K	11	4%
$500K+	2	1%

Source: Audit Office analysis of Department of Agriculture data.
*Only includes cases that earned credits.

Types of Assets

Between 2018 and 2023, cropland assets were included in 326 cases, making it by far the most common asset leased (Figure 1.5). The next most commonly leased asset was equipment with 20 cases.

Figure 1.5. Beginning farmer cases included cropland leases more than all other asset types combined.

Year	Asset Type*				
	Cropland	Equipment	Facilities	Livestock	Pastureland
2018	87	3	2	1	1
2019	55	4	1	1	2
2020	58	2	2	2	3
2021	70	4	2	1	7
2022	27	4	2	0	0
2023	29	3	3	1	4
All	**326**	**20**	**12**	**6**	**17**

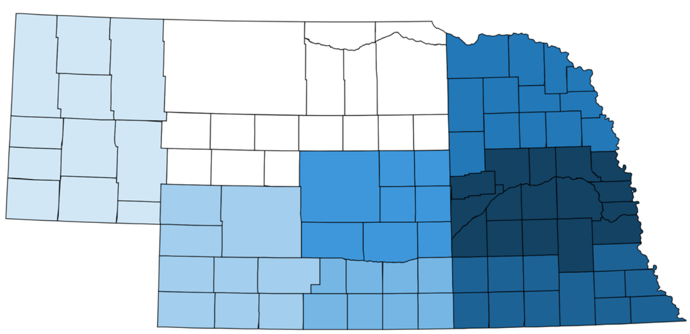
Source: Audit Office analysis of Department of Agriculture data.
*Cases can include more than one asset type.

Geographic Distribution of Credits

From 2018 to 2023, the program authorized just over $8.8 million in credits. While over $8 million went to Nebraska residents, about $790,000 went to asset owners outside of Nebraska.[6] Two counties, Hamilton and Platte, received more than $500,000 in credits. Twenty-nine counties received between $100,000 and $500,000. Thirty-two counties received no credits during this time period.[7]

The vast majority of credits went to asset owners in the more eastern parts of the state (Figure 1.6). This result can be seen when aggregating the counties into regions. The U.S. Department of Agriculture (USDA) divides Nebraska into eight districts for statistical analysis. Using these districts, we can see that the eastern most regions account for roughly $6 million of the $8 million received.

Figure 1.6. Almost 75% of credits awarded to Nebraska residents went to counties in eastern agricultural districts.



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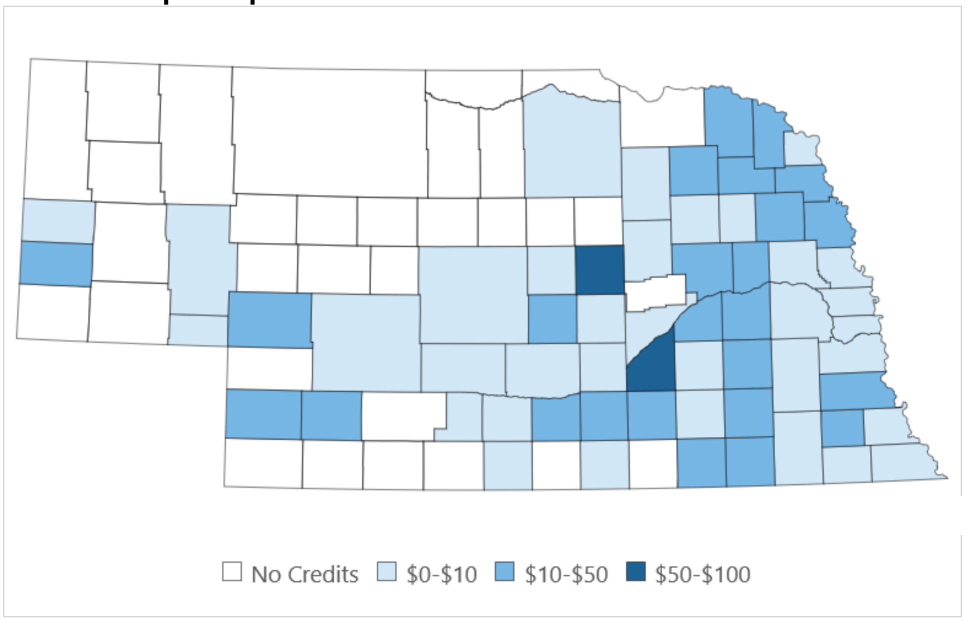
NORTH	$1,579
All	**$8,051,271**

Source: Audit Office analysis of Department of Agriculture information.

We also looked at whether population explained the geographic distribution of credits. From 2018 to 2023, even when population density is accounted for, counties in eastern parts of the state still received more Beginning Farmer tax credits (Figure 1.7, in thousands).

[6] Colorado received the most at around $248,000, followed by California at $106,000.
[7] A full list of counties can be found in the Distressed Areas Metric in Section II.

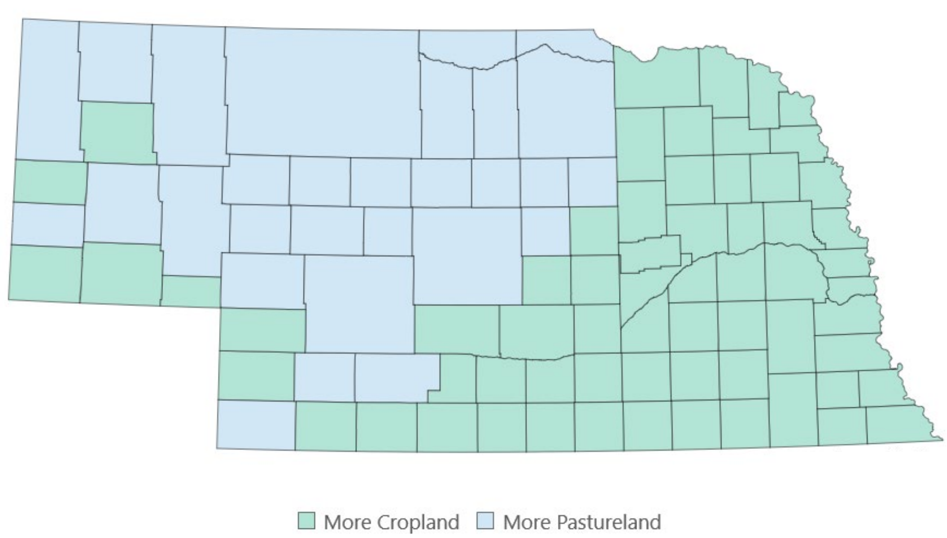
Figure 1.7. Counties in the eastern part of the state generally received more credits per capita.



Source: Audit Office analysis of Department of Agriculture information.

When looking at types of agricultural land use, data confirms that credit distribution is broadly consistent with the distribution of counties with more cropland than pastureland. The USDA Census of Agriculture breaks down agricultural activity at the county level by land use. Nebraska has 64 counties with more cropland than pastureland and these counties are mostly in the eastern and southern parts of the state. Those counties with more cropland received an average of about $121,000 from 2018 to 2023 (Figure 1.8). The 29 counties that have more pastureland received an average of about $10,500.

Figure 1.8. Most counties that have more cropland than pastureland are in the eastern and southern parts of the state.



Source: Audit Office analysis of USDA Census of Agriculture information.

The counties benefitting most from the program roughly mirror the areas of the state where land is primarily used for growing crops—cropland—rather than livestock production—pastureland. The Department of Agriculture is aware of this geographic imbalance in credit use. Staff has expressed willingness to promote in more western counties and among more livestock-centered groups.

> **Result:** Counties in eastern and southern parts of the state received more Beginning Farmer tax credits than others. This follows geographic patterns of crop production versus livestock production and holds when adjusting for population.

Related Parties

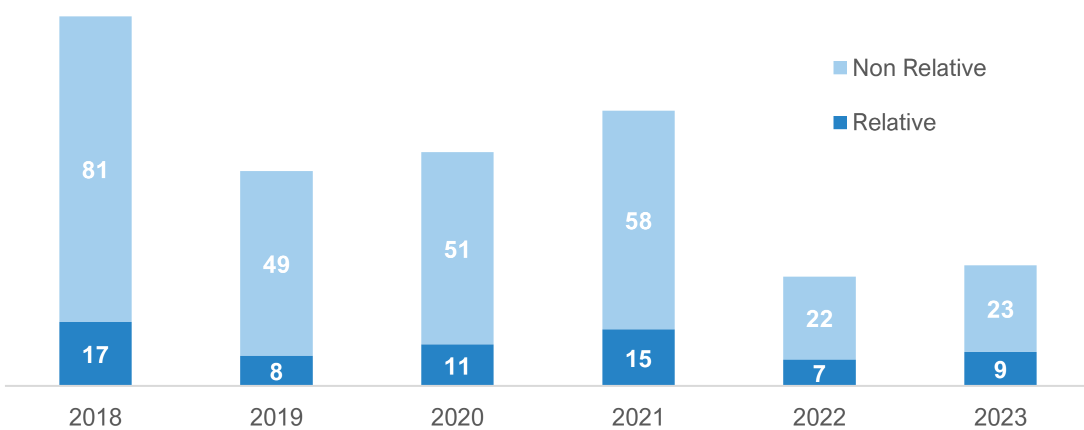
In 2008, the Legislature added a provision to the Beginning Farmer Act that allows asset owners to receive tax credits for renting agricultural assets to relatives. From 2018 to 2023, 67 out of 351 cases had a beginning farmer that was related to an asset owner.

Under the Act, a relative includes family members of the beginning farmer and their spouse to the third degree. This includes children as well as great grandparents, aunts and uncles, nieces and nephews, and great-grandchildren.

In order to participate as a related party, the rental agreement must be included in a succession plan. The succession plan must be a written contract or other legally-binding document that implements both a timetable and a process for transferring assets from the asset owner to the beginning farmer within 30 years. Regulations contain additional stipulations including acceptable forms of succession plans (purchase contracts, buy-sell agreements, and trusts) and those that are unacceptable (wills).

For this report, the term “relative cases” refers to cases where at least one asset owner is related to a beginning farmer. Relative cases accounted for a greater portion of total cases each year since 2019, despite a general decrease in total cases per year (Figure 1.9).

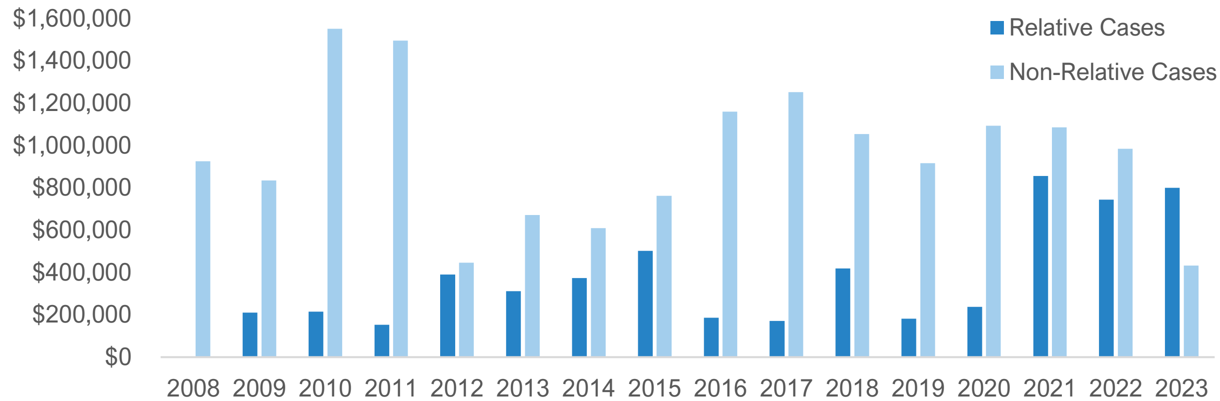
Figure 1.9. As total cases have generally declined since 2018, the portion of cases that were between relatives has increased.



Source: Audit Office analysis of Department of Agriculture data.

From 2008—the first year that agreements between relatives was allowed—to 2023, credits allocated in cases where a beginning farmer was related to an asset owner was just over $5.75 million. The amount of credits allocated in cases with related parties exceeded the amount allocated to non-relative cases for the first time in 2023 (Figure 1.10).

Figure 1.10. There was a large increase in the amount of credits allocated in cases with related parties in the last three years of the review period.



Source: Audit Office analysis of Department of Agriculture data.

In five of the last six years, the cases with the highest credits were relative cases (Figure 1.11). There is no discernable pattern in which group has the highest credit case. However, in the last two years examined, one case between relatives in each year was worth more than 25% of the overall program cap.

Figure 1.11. In five of the last six years, the cases with the highest amount of credits were between relatives.

Year Case Approved	Largest Relative Case	Largest Non-Relative Case
2008	$0	$322,585
2009	$54,863	$113,198
2010	$76,612	$738,822
2011	$36,199	$119,404
2012	$168,575	$110,532
2013	$150,548	$84,341
2014	$115,185	$113,184
2015	$86,870	$155,250
2016	$60,900	$143,674
2017	$37,462	$199,164
2018	$86,716	$74,923
2019	$117,017	$97,857
2020	$81,688	$225,626
2021	$201,707	$115,683
2022	$559,629	$268,863
2023	$527,381	$112,794

Source: Audit Office analysis of Department of Agriculture data.

Acreage

A total of 74,322 acres of land was leased under the Beginning Farmer program from 2018 to 2023, for an average of 12,387 acres per year (Figure 1.12). The average amount of land leased per case was 253 acres.

Figure 1.12. The average acreage per case has generally increased in recent years.

Year	Number of Cases*	Total Acres	Average Acreage Per Case	Largest Acreage	Smallest Acreage
2018	82	16,554	202	789	19
2019	47	11,984	255	843	47
2020	50	12,072	241	1,186	37
2021	62	16,161	261	1,242	33
2022	27	9,337	346	2,122	35
2023	26	8,214	316	2,587	18

Source: Audit Office analysis of Department of Agriculture data.
*Only includes cases that earned credits on leases including land.

As of the 2022 USDA Census of Agriculture, farms in Nebraska had just under 44 million acres in land. According to the records kept by the Department, just about 208,000 acres, or about .5% of Nebraska's farmland, have been rented through the Beginning Farmer program.

Nebraska's Farming Demographics

Between the two USDA Agricultural Censuses in 2018 and 2022, 204 unique beginning farmers applied to the Nebraska Beginning Farmer program. The USDA reported statewide growth of 4,186 beginning farmers in that time period.[8] For simplicity's sake, assuming all 204 program participants were only included in the 2022 census growth figures, then the program could have assisted, at most, 5% of the new beginning farmers in the state at that time.

While a beginning farmer's age is not an explicit criterion for program participation, there was discussion during debate on the bill about helping younger individuals, such as those under age 25, enter farming.[9] Although it was not required, 149 beginning farmers filled in the optional age field on at least one application. The vast majority of the farmers who reported their ages were under 35 years old (Figure 1.13).

[8] Both the program and USDA generally define a beginning farmer as having farmed for fewer than 10 of the last 15 years.
[9] Neb. Rev. Stat. § 77-5209 states the "legal age to enter" contracts as a minimum requirement, but does not provide an exact age.

Figure 1.13. From 2018 to 2022, the majority of beginning farmers that reported their ages were between 25 and 34 years old.

Age Group	Number of Beginning Farmers
24 and under	56
25 – 34	84
35 – 44	14
45 – 55	1
All	**155***

Source: Audit Office analysis of Department of Agriculture data.
*Some farmers participated more than once and changed age groups between cases.

For context we looked at two groups, "younger" farmers and "older" farmers, between 2017 and 2022 to see the general trend in farmers' ages. We defined younger farmers as those who were under 35 years of age and older farmers as those over 54 years of age. In both Nebraska and the US as a whole, the number of younger farmers and older farmers rose (Figure 1.14).

Figure 1.14. The number of younger farmers in Nebraska rose at a slightly higher rate than for the US as a whole.

	Nebraska 2017	Percentage of Total	US 2017	Percentage of Total	Nebraska 2022	Percentage of Total	US 2022	Percentage of Total
Younger	8,226	10.7%	285,439	8.4%	9,031	11.2%	296,480	8.8%
Older	46,304	60.1%	2,109,396	62.0%	48,307	60.2%	2131,518	63.2%
All	**77,097**		**3,399,834**		**80,283**		**3,374,044**	

Source: Audit Office analysis of USDA Census of Agriculture data.

Program information did not include other demographic information such as gender and race. These are not included as fields in application documents.

Results: While a beginning farmer's age is not an explicit criterion for program participation, there was discussion during debate on the bill about helping younger individuals. Although it was not required, 149 beginning farmers filled in the optional age field on at least one application. The vast majority of the farmers who participated and reported their ages were under 35 years old.

Program information did not include other demographic information such as gender and race. These are not included as fields in application documents.

Other States' Policies for Assisting Beginning Farmers

Beginning farmer tax credits are one of several types of state level policies aimed at helping young and beginning farmers access land and get started in the farm economy. Nebraska was the first state to enact a state level program by providing tax credits on lease agreements. Iowa, Minnesota, Kentucky, Pennsylvania, and Ohio have since adopted similar rent-based tax credit programs.

In 2018, Minnesota became the first state to use tax credits to incentivize the sale of land to beginning farmers. Farmland sales to beginning farmers can earn 8%-12% in tax credits. Sales of equipment, facilities, and livestock can earn a 5% credit. The Minnesota Farmers Union, credited as a major reason for passage of the program, advocated for incentivizing ownership as a way to build generational wealth. Nebraska does not offer a tax credit for sales.

Another method of incentivizing agricultural sales to young and beginning farmers is by offering low or no interest loans. Delaware and Maryland pioneered a version of this type of incentive called Farmland Purchase and Protection Incentives. These programs help young and beginning farmers buy land by offering zero-interest loans. The state then ensures that the land is preserved for agricultural use in perpetuity. This method not only incentivizes young and beginning farmers to purchase land but also prevents the loss of productive agricultural land. Nebraska does have a beginning farmer loan program through the Nebraska Investment Finance Authority, however, the loans are structured differently and do not include ag land preservation guarantees.

> **Result:** Beginning farmer tax credits are one of several types of state level policies aimed at helping young and beginning farmers access land and get started in the farm economy. Nebraska was the first state to enact a state level program by providing tax credits on lease agreements. In 2017, Minnesota became the first state to use tax credits to incentivize the sale of land to beginning farmers. Delaware and Maryland pioneered a version of this type of incentive called Farmland Purchase and Protection Incentives. These programs help young and beginning farmers buy land by offering zero-interest loans. The state then ensures that the land is preserved for agricultural use in perpetuity.

2018 Recommendation Follow-Up and Internal Control Issue

In the 2018 audit report, the Performance Audit Committee made nine recommendations regarding Audit findings related to the Beginning Farmer Tax Credit Act. These findings and recommendations were related to repeat participation by beginning farmers and asset owners, refundability of credits, use of flex rent as an acceptable lease format, and internal controls regarding participants' knowledge of responsibilities. Five of the six findings were addressed through legislation the following year.[10] The final issue from that report, relating to participants' knowledge of their responsibilities, remains a concern. A

[10] Nebraska Laws 2019, LB 560.

related internal control issue regarding lease and beginning farmer status information was also identified during the course of this audit.

2018 Audit Recommendations

The one recommendation that was not addressed through statutory change was regarding participants' knowledge of responsibilities. The 2018 Beginning Farmer Tax Credit audit report stated:

> **Finding:** During a case file review, we found one case in which an asset owner had sold the land they had been leasing under this program, but they had not notified the Beginning Farmer Board of the sale. A credit was issued, although the owner returned it. Based on this anecdote, we reviewed the materials provided to program participants at application and found they do not receive a list of specific participation requirements. The other tax incentive programs we have audited provide such a list and require participants to sign and acknowledge they understand the requirements.
>
> **Finding:** Under the Beginning Farmer Tax Credit Act, a beginning farmer who discontinues farming or livestock production becomes ineligible for the personal property tax exemption. However, the Department of Agriculture does not review participating farmers' qualifications after their initial approval, which could mean farmers who are no longer eligible for the property tax exemption continue to receive it.
>
> **Recommendation:** The Board must provide program participants with a list of their responsibilities under the Act and require participants' signatures to acknowledge they understand those responsibilities. Among those responsibilities, the Board should include a requirement that participants notify the Board as soon as possible if they become ineligible to continue participating.

The Department believes this recommendation was covered by a section of the application that states "I certify that the above information and the supplemental information is correct and true to the best of my knowledge. Furthermore, I will adhere to the Beginning Farmer Tax Credit Act and Regulations." The statement is followed by the signature of the applicant.

Participants are not provided an itemized list of requirements for any status change or development that may occur once the application has been approved and participation has begun. They are only referred to the program statutes and the rules and regulations. The likelihood of all participants seeking out statutory and regulatory information to understand their legal responsibilities is low. Department staff indicated openness to providing an additional form or some other method of spelling out participants' requirements.

Related Internal Control Issue

The Beginning Farmer Board is required to perform a yearly review of each active case. The purpose is to either certify or terminate eligibility for the program or tax credits. When asked about this review, agency staff explained that members of the Board receive a spreadsheet with a list of active cases and then vote on their certification. They further stated that do not seek out any information or contact participants once the paperwork certifying participation has been completed. Any contact regarding active agreements is initiated by the participants.

Current internal control practices may not be sufficient for ensuring that the status of leases is known to the agency and that beginning farmer qualification status remains valid for program participation or for the tax exemption. Without reliable updates on the status of rental agreements or qualifications, the Board will not be able to make informed judgements during their case review. This introduces some risk that the program could provide benefits outside of statutory intent.

Finding: Current Beginning Farmer program practices may not be sufficient for 1) ensuring that participants are aware of their responsibilities, 2) informing the agency/Beginning Farmer Board of the current status of lease agreements, and 3) informing the agency/Beginning Farmer Board of changes in the qualification status of beginning farmers related to continued participation and property tax exemptions. This introduces some risk that the program could provide benefits outside of statutory intent.

SECTION II: Analysis of Metrics

Before presenting the Beginning Farmer Tax Credit Act's audit scope questions and the metrics used to answer each, please note several points that will aid in the understanding of the audit results and findings.

Causation

The biggest issue when evaluating tax incentive programs is that it is often impossible to show that a program *caused* any specific economic results. There are many other factors that can influence a participants' decision-making that are unaccounted for in this report. We do not claim that the program caused the results we report.

Results

The results for each metric describe the product of the analysis we conducted. For example, if the metric was whether program spending increased over time, we report whether it did or not as the result. Results do not include judgments about how well the program is succeeding.

Findings

Findings involve making a judgment about how program outcomes on a given metric compare to a standard. For example, for a program that has a goal of increasing jobs, the standard would be whether or not jobs increased. Our finding, in that instance, would be whether there was an increase in jobs, or whether job increases met the legislature's expectation.

Scope Questions and Metrics

The Performance Audit Committee asked the Legislative Audit Office to answer four broad questions regarding the Beginning Farmer Tax Credit Act, utilizing the metrics listed below each question. The Committee also requested that the Office look what could be done to improve future audits, which is addressed throughout the report as necessary. Information regarding how much money in credits were used through the Act is presented in Section I. Each metric clearly states the time period examined. Metrics starting in 2014 are analyzing cases completed by 2018. Not all questions received a specific metric. Some are answered elsewhere in report.

1. Is the Act meeting the goal of strengthening the state's economy overall by attracting new business to the state, expanding existing businesses, and increasing employment?
    a. **Preventing Conversion**: To what extent is the Act retaining existing and established farm operations?
    b. **Transferring Land to Beginning Farmers**: To what extent is the Act helping transfer land from older independent farmers to younger independent farmers?
    c. **Preventing Consolidation**: To what extent is the Act preventing large landowners and corporations from acquiring land from independent farmers?

2. **Distressed Areas**: Is the Act meeting the goal of revitalizing rural and other distressed areas of the state?
    a. To what extent is the Act revitalizing rural areas of the state?
    b. To what extent is the Act revitalizing distressed areas of the state?
    c. To what extent is the Act keeping younger people in rural areas of the state?

3. What are the Act's economic and fiscal impacts?
    a. **Impact on Budgets of Local Governments:** How did the Act impact budgets of local governments?
    b. **Cost to Administer**: How much did it cost to administer the Act?

4. **Fiscal Protections**: Are adequate protections in place to ensure the fiscal impact of the Act does not increase substantially beyond the state's expectations in future years?

Metric 1: Preventing Conversion

Results

One of the goals of the Beginning Farmer Tax Credit Act was to retain land for agricultural use and to prevent that land from being converted to non-agricultural use. We found that the vast majority of land involved in the program does not appear to have been under threat of conversion. For the plots of land that we examined, none were converted to any other use after program participation. A few of the rented properties were in locations that could be targets for conversion to residential areas, based on their proximity to growing communities.

We cannot say that participation in the program prevented any land from being converted. However, because there were only a handful of cases where land was rented in areas likely under threat of being developed, we can reasonably conclude that the program has had little, if any, impact on conversion in the last decade.

Discussion

One goal outlined in the Beginning Farmer Tax Credit Act is to use tax policy to "retain existing and established farm operations" in the state.[11] Studies have been conducted that look into how much quality farmland is available and how much has been converted by development from farmland into commercial or residential use. The concern is that quality farmland needs to be preserved to ensure food security and to maintain environmental quality related to climate change and wildlife conservation, among other threats.

American Farmland Trust (AFT) makes several policy recommendations intended to combat urban conversion. One recommendation suggested by AFT is for states to implement policies encouraging increased access to land. In fact, Nebraska's Beginning Farmer Tax Credit was highlighted as an example policy in one of their reports.

According to AFT's Midwest regional director, one projection shows that Nebraska could lose up to 104,000 acres of farmland to development by 2040. In this projection, counties surrounding Omaha and Lincoln would be hardest hit.

We examined the 515 cases in the program where land was rented from 2014 to 2023. In that time, there were 19 cases in counties surrounding Omaha and Lincoln (Lancaster 17, Douglas 0, Sarpy 1, Washington 1). None of those cases were within two miles of development contiguous to Omaha or Lincoln. One 65-acre parcel was rented through the program that was within 2 miles of Papillion, which is contiguous to the city of Omaha.

[11] Neb. Rev. Stat. § 77-5202(2).

The UNO Center for Public Affairs Research highlighted a trend regarding the fastest growing places in recent years. They noted that Omaha has been losing population but areas outside of the city limits have been growing. The U.S. Census Bureau released an article that suggests locations outside of metro areas are growing faster due to the increase in remote work after COVID. Smaller growing communities could also be a driver of farmland conversion.

We wanted to see if the Beginning Farmer credit interacted with the fastest growing towns in the state, and potentially prevented some urban expansion. We used census figures to determine the 15 fastest growing cities in the state since 2020. We then looked to see if farmland rented through the program was near any of them.

In the years 2014 to 2023, there were five cases where land was rented within two miles of Nebraska's most recent fastest growing cities. They account for a total of just over 700 acres.

Based on these two analyses, a total of 766.7 acres of land was rented through the program that were near likely avenues for urban expansion: Lincoln, Omaha, and the fastest growing cities in the state. We cannot say that the program prevented any of these farms from conversion as we have no evidence to suggest this is the case. Even if we grant the program the benefit of the doubt, and assume the program did prevent every one of these farms from conversion, that would be less than 800 acres over 10 years of program operation, or less than 1% of the AFT projection discussed above. It is reasonable to conclude that the program has not had a significant preventative impact on land use conversion in Nebraska the last decade.

Metric 2: Transferring Land to Beginning Farmers

Results

We identified 335 beginning farmers who participated in the program during application years 2014 to 2021. Just over half were confirmed to be current agricultural landowners. Twenty beginning farmers currently own at least some of the land that they rented through the program.

We cannot say that the program is the reason these beginning farmers currently hold land because they may have had land prior to participation, or may have gained property through other means that would not be affected by the program, such as inheritance.

Discussion

Since the introduction of the Act, legislators have wanted to prevent, in Senator Roger Wehrbein's words, the "Wal-Marting" of agriculture—large, consolidated, corporate farms worked by employees.[12] Senator Wehrbein and others believed that the Act would combat this trend in two ways: prevent large landowners or corporations from consolidating farmland and encourage new smaller farmers in the state.

This intent is reflected in the findings section of the Beginning Farmer Tax Credit Act. The Act declares that it is the policy of the state to "encourage persons to seek careers in the farming industry."[13]

A 2015 survey of previous beginning farmer participants by the Department of Agriculture showed that nearly all of the 86 participants surveyed were still farming. In providing more current information, we wanted to provide a more targeted analysis by narrowing down the question and determining how many beginning farmer participants currently own agricultural land.[14]

We identified 335 unique beginning farmers that participated in the program from 2014 to 2021. Using county assessors' websites and program information, we found that at least 176 (53%) beginning farmers currently own land in the county they participated in.[15] As noted in the Consolidation metric, 20 of those 176 beginning farmers own a portion of the land rented during participation in the program. The remaining 159 beginning farmers

[12] Nebraska Legislature, *LB 630 (1999) Legislative History*, remarks by Senator Wehrbein, April 12, 1999, p. 3844.
[13] Neb. Rev. Stat. § 77-5202(2).
[14] Any record on county assessors' website that was categorized as "Agricultural" entry was counted as ag land. This includes separate ownership of a farm related asset such as a grain bin on agricultural land in someone else's name. This often happens on family-owned land.
[15] This number may be higher but due to the difficulties in identifying some owners, we may not have found all participants who currently own land.

currently own land that was not the land that they rented while participating in the program.

The 53% of beginning farmers who are landowners are involved in the agricultural economy of the state. We cannot say with certainty what the other 47% are doing. Based on the 2015 survey conducted by the Department, it seems likely that most remain in the agricultural sector. However, additional research such as examination of individual tax returns or a comprehensive survey of more recent participants would be necessary to confirm that claim.

Analysis Limitations

We were unable to determine whether or not these landowners own land because of the program. Our review of records indicated that some of the 53% who currently own land also owned land before participating in the program or have inherited land after program participation.[16] Additionally, the complex nature of owner and seller decision making and the large number of transactions that would need to be studied would require extensive investigation into ownership histories that we have not pursued because of time constraints. Future audits could examine these histories more thoroughly.

[16] The Beginning Farmer program allows landowners that meet program requirements to participate as beginning farmers.

Metric 3: Preventing Consolidation

Results

We identified 10 large landowners—those that own more than 1,000 acres—who currently own parcels of land that were rented through the program and are now under new ownership. Five of the ten are family LLCs, the rest are owned by individuals. The vast majority of land rented through the program is still owned by the asset owner that earned credit. None of the land is currently held by large corporations.

The complex nature of owner and seller decision making and the large number of transactions does not allow for conclusive determinations about whether the program prevented any large landowners from acquiring land.

Discussion

As discussed in the previous metric, when the program was established in 1999, proponents believed it would help address the issue of farm consolidation. They saw the acquisition of land by large landowners and the loss of smaller family farms as a threat. Consolidation concerns continued to be raised in debate on bills that updated the Act in 2006 and 2021.

From 2014 to 2021, there were 462 cases where beginning farmers rented a reported 114,658 acres from asset owners under the Beginning Farmer program. Of these acres, 89% (101,746) is still held by the asset owner, while 2% is now owned by beginning farmers (Figure 2.1).

Figure 2.1. The vast majority of land rented through the program is still owned by the asset owner that earned program credits.

Source: Audit Office analysis of Department of Agriculture data.

There were 12,912 acres of land rented through the program that have since changed ownership. This land is currently owned by 96 individuals with no connection to the program. Forty-six of those individuals are small landowners (1-199 acres), 40 are medium sized landowners (200-999 acres), and the final 10 are large landowners. None of the land rented through the program is currently held by a large corporation.[17]

In 67 cases, at least some of rented land transferred ownership sometime after participating in the program. In 20 of those cases, the beginning farmer now owns at least part of what was rented.

[17] All of the current large landowners identified in our analysis are either individuals or family-owned S-corporations. None of the owners were C-Corporations.

Metric 4: Distressed Areas

Results

To determine distressed areas for this audit, we used a more comprehensive method than used in previous reports. This method ranks counties based on the unemployment rate, median household income, and the poverty rate rather than relying only on unemployment rates.

From 2018 to 2023, Nebraska residents received about $8 million in Beginning Farmer tax credits. Counties in the most distressed areas received the fewest tax credits. Of the 18 most distressed counties in Nebraska, only 7 counties received program credits, totaling just over $580,000. Eleven of the 18 most distressed counties received no program credits.

Discussion

The Beginning Farmer program does not specifically target credits to any geographic area; however, the Legislative Performance Audit Act directs the Audit Office to examine the impact of tax incentives on distressed areas, which it defines as an area of substantial unemployment. This definition determines whether an area is distressed or not based on a single factor— concentrated unemployment. Using this one factor does not take into account the nuances of rural economic distress. Instead, in this report we use three factors to compare counties to each other, and the lowest performing areas are identified as distressed. This is discussed in more detail in the Defining Distressed Areas Methodology section.

Distressed Areas Index

Using recent data from the Census Bureau, we ranked the counties based on unemployment rates, median household income, and poverty rates. The counties were then divided evenly into five distress levels, with level 1 being the least distressed and level 5 the most distressed. We then determined the amount of tax credits that went to asset owners residing in all counties.

From 2018 to 2023, just over $8 million in credits went to Nebraska residents. While Levels 1 through 4 each received more than $1 million in program credits, Level 5 counties (those that are the most distressed) received under $600,000 (Figure 2.2).

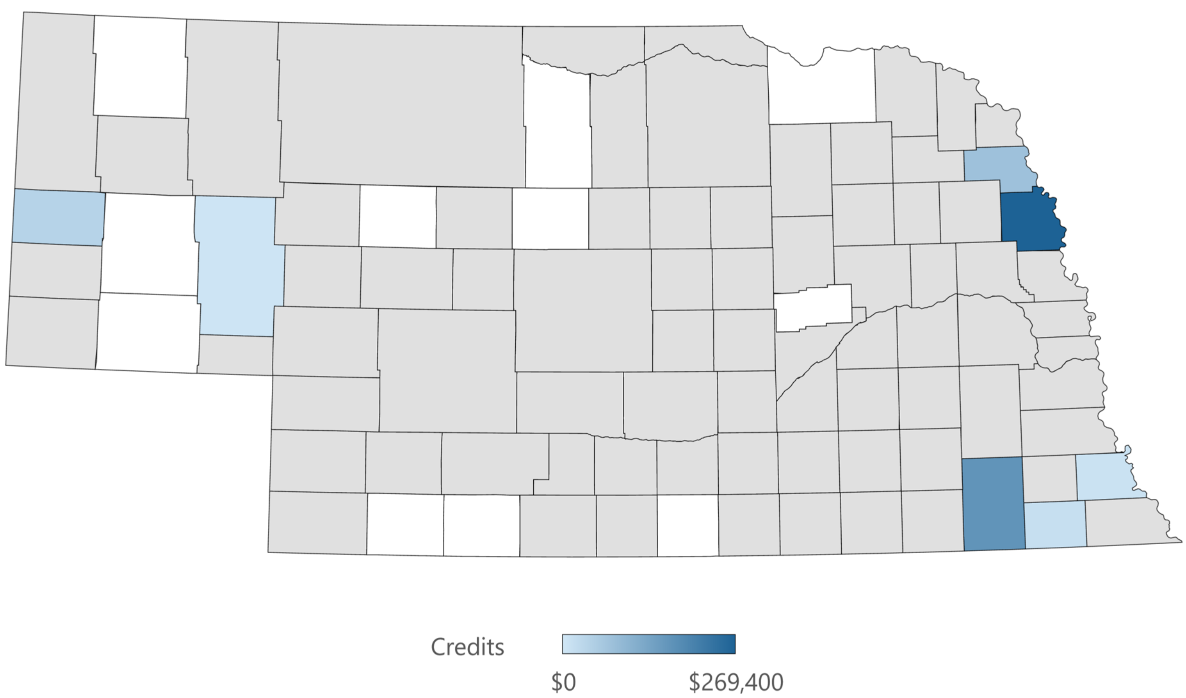
Figure 2.2. The most distressed counties received the fewest tax credits.

Distress Level	Credits 2018-2023
1 (least distressed)	$2,106,194
2	$2,357,499
3	$1,207,309
4	$1,794,529
5 (most distressed)	$585,740
All	**$8,051,271**

Source: Audit Office analysis of Department of Agriculture data.

Of the level 5 counties that received program credits, Burt County received the most, almost $270,000 (Figure 2.3). Eleven of the level 5 counties received no credits from the program (see Figure 2.4 on page 30 for a full list of credits received by county).

Figure 2.3. Only seven of the eighteen most distressed counties in the state received credits.



Source: Audit Office analysis of Department of Agriculture data.

Defining Distressed Areas Methodology

We patterned our new method off of the one used by the Appalachian Regional Commission (ARC). ARC's method uses an index to rank the economic status of all of the counties in the U.S. and place them into five categories of distress. It is updated regularly and is used in determining grant requirements for funding to counties in the Appalachian region based on their rank. The ARC index uses the three-year average unemployment rate, per capita market income, and the poverty rate to rank counties.

We modified the index slightly, using the three-year average unemployment rate, the median household income, and the poverty rate (Figure 2.4). The median household income was chosen for ease of use, similarity to the ARC measure, and the rural nature of most Nebraska counties.

In our previous audit of the Beginning Farmer Act (and in all other previous tax incentive audits), we have used counties with Areas of Substantial Unemployment (ASU) as our determinant of a distressed area. The ASU method uses a single indicator—the unemployment rate in contiguous census tracts—to determine if an area is distressed.

Any single factor measurement will not tell the whole story on distressed areas. As an example, an area with a low unemployment rate can still be distressed if the jobs are low wage or part-time. Additionally, an ASU requires at least 10,000 people to be in a contiguous area before it can be labeled as distressed, regardless of the unemployment rate. The U.S. Census Bureau estimates that 67 of Nebraska's 93 counties have fewer than 10,000 residents, so it is likely that many areas that are distressed will remain undetected when using ASUs. This is especially relevant for the Beginning Farmer program which is targeted towards agricultural activity that happens in rural areas that will not have the concentrated centers of unemployment like those that can be found in some urban areas.

Using a comparative method as we do here also has drawbacks. Though it could be more likely to detect rural distressed areas than an ASU measurement, it will also always label some regions as distressed even if the state as a whole is better off compared to others.

Figure 2.4. Full list of counties with credits, by distress level and rank.*

Least Distressed Level 1		Level 2		Level 3		Level 4		Most Distressed Level 5	
County	Credits	County	Credits	County	Credits	County	Credits	County	Credits
Sarpy	$23,398	Thomas	$ -	Buffalo	$339,546	Douglas	$153,493	Knox	$ -
Saunders	$144,945	Pierce	$108,095	Merrick	$69,222	Hayes	$16,734	Hooker	$ -
Cass	$6,215	Cuming	$91,559	Antelope	$52,568	Keith	$127,213	Morrill	$ -
Kearney	$211,670	Cherry	$ -	Holt	$1,579	Boyd	$ -	Cheyenne	$ -
Howard	$3,779	Nuckolls	$ -	Banner	$14,400	Sheridan	$ -	Nemaha	$10,075
Washington	$15,496	Dixon	$152,710	Jefferson	$254,270	Greeley	$208,899	Red Willow	$ -
Cedar	$167,747	Boone	$25,695	Rock	$ -	Kimball	$ -	Dawes	$ -
Hamilton	$756,102	Chase	$151,317	Box Butte	$ -	Dundy	$ -	Gage	$168,078
Gosper	$16,000	Custer	$29,941	Sherman	$57,742	Madison	$234,561	Blaine	$ -
Polk	$53,120	Logan	$ -	Loup	$ -	Wayne	$111,022	Hitchcock	$ -
Butler	$258,341	McPherson	$ -	Webster	$31,527	Phelps	$58,041	Nance	$ -
Stanton	$14,134	Clay	$166,247	Garfield	$ -	Furnas	$ -	Franklin	$ -
Seward	$267,843	Platte	$608,164	Valley	$26,301	Dakota	$99,918	Pawnee	$16,061
Wheeler	$ -	York	$140,219	Johnson	$121,528	Hall	$163,507	Brown	$ -
Fillmore	$13,829	Otoe	$209,411	Deuel	$4,291	Richardson	$43,391	Burt	$269,400
Perkins	$ -	Grant	$ -	Lancaster	$234,337	Dawson	$132,696	Scotts Bluff	$40,039
Harlan	$1,069	Thayer	$130,447	Keya Paha	$ -	Sioux	$ -	Garden	$6,053
Colfax	$152,505	Dodge	$118,499	Frontier	$ -	Adams	$362,844	Thurston	$76,033
		Saline	$425,194	Arthur	$ -	Lincoln	$82,210		

Source: Audit Office analysis of Department of Agriculture data.
* Counties are listed in order based on distress level rank: Sarpy is the least distressed and Thurston is the most.

Metric 5: Impact on Budgets of Local Governments

Results

From 2018 to 2023, local governments saw at least $80,000 in reduced property tax revenues due to the program. The actual figure is likely a bit higher than $80,000 due to some exemption information that was not identified.

Discussion

In 2008, the Legislature amended the Beginning Farmer Tax Credit Act to provide participating beginning farmers with a tax exemption on personal property. The exemption is for up to $100,000 of taxable value and has not been changed since it was first implemented.

To receive the exemption, two steps must be taken. First, they must be certified by the Beginning Farmer Board. Once they are certified by the Board as eligible, they must also apply for the exemption to their county assessor. The application to the county assessor needs to be filed prior to the tax year for which the exemption would be claimed.

Exemption Use

Personal property tax exemptions are the only part of the program that has an impact on local government budgets. During the debate on the property tax exemption, the introducer expected that the total cost to counties would be less than $40,000 per year.

Eighty-seven of 226 unique beginning farmers were certified for personal property tax exemptions by the Board during the years examined. However, a much smaller number completed the steps necessary to receive tax benefits. We estimated that fewer than 20 beginning farmers claimed the exemption in any given year (Figure 2.5).[18]

[18] This figure is likely higher for two reasons: 1) we did not receive information from all county assessors, and 2) some of the information we did receive was only valuation exempted. Tax benefits for those counties were estimated using county average tax levies.

Figure 2.5. Beginning farmers received more than $82,000 in program property tax benefits from 2018 to 2023.

Year	Personal Property Tax Benefit	Number of Beginning Farmers Claiming
2018	$5,158	7
2019	$10,059	13
2020	$18,340	18
2021	$18,533	17
2022	$17,519	13
2023	$12,646	13

Source: Audit Office analysis of County Assessor information.

Over the course of the period examined, most counties forfeited less than $10,000 through program exemptions (Figure 2.6). From 2018 to 2023, the total amount of foregone revenue for all counties was less than $83,000. The actual figure is likely a bit higher than this number due to some exemption information that was not identified, discussed further in Data Shortcomings on the following page.

Figure 2.6. From 2018 to 2023, we identified only one county that lost more than $10,000 through personal property tax exemptions.

County	Estimated Property Tax Loss
Antelope	$227
Buffalo	$5,156
Burt	$6,264
Butler	$8,189
Cedar	$1,691
Clay	$1,281
Dixon	$6,000
Dodge	$1,552
Fillmore	$4,644
Hall	$7,668
Hamilton	$10,442
Keith	$541
Lancaster	$8,713
Madison	$5,842
Merrick	$2,283
Otoe	$9,217
Seward	$2,546
All	**$82,555**

Source: Audit Office analysis of County Assessor information.

There are several reasons why exemption use may be low. The net worth limitation disqualifies some potential beginning farmers from the program entirely. Additionally, some beginning farmers may have participated previously and already used their exemption. The process requires the beginning farmer to apply for the exemption with the county assessor, creating an additional step. Some beginning farmers who own smaller amounts of personal property may decide that the effort is not worth a small exemption. Others have access to family-owned equipment already in use.

Data Shortcomings

Because some county assessors did not respond to our questions, it is likely we did not identify all beginning farmers with property tax exemptions. In our previous report, we used information collected by the Department of Revenue, however, they no longer track beginning farmer exemptions.

Additionally, information was provided in different formats by the various county assessors who did respond. Some assessors provided an exact calculation of the amount of taxes exempted, while others provided the amount of the valuation exempted. When land valuations were provided, our estimates were generated based on county average property tax levies.

Metric 6: Cost to Administer

Results

From FY2018 to FY2024, the cost to administer the Beginning Farmer Tax Credit Act was about $518,000.[19]

Discussion

The Department reports administrative costs by fiscal year in their annual reports. The total cost for administering this program for FY2018 to FY2024 was just under $518,000 (Figure 2.7).

Figure 2.7. The cost to administer the program from FY2018 to FY2024 was about $518,000.

Fiscal Year	Expenditures
2018	$67,903
2019	$70,424
2020	$65,541
2021	$66,893
2022	$71,021
2023	$72,014
2024	$103,961
All	**$517,757**

Source: Audit Office analysis of Department of Agriculture data.

[19] Nebraska state fiscal years run from July to June, so FY2018 refers to July 1, 2017 to June 30, 2018.

Metric 7: Fiscal Protections

Results

The Beginning Farmer Tax Credit Act Program meets five of the nine Pew Charitable Trusts recommendations to reduce budget risks. The program has adequate fiscal protections largely due to the $2 million annual cap on tax credits.

Discussion

A 2015 report from The Pew Charitable Trusts outlined nine different recommendations for state policymakers to consider when seeking to ensure appropriate fiscal controls are in place for tax incentive policies.[20] The Beginning Farmer Tax Credit meets five of the nine recommendations; however, because of this program's unique structure, one recommendation is not applicable (Figure 2.8).

[20] The Pew Charitable Trusts, *Reducing Budget Risks: Using Data and Design to Make State Tax Incentives More Predictable*, December 2015.

Figure 2.8. The Beginning Farmer program meets five of nine Pew Center fiscal protection measures.

Pew Report Recommendations	Beginning Farmer	Audit Office Remarks
Gather and share high-quality data on the costs of incentives by:		
Regularly forecast the cost	**No**	Program costs are not forecasted.
Monitor costs and commitments of large and high-risk programs	**N/A**	Small program so both the risk and chance of unexpected high costs are low.
Share timely information on incentives across relevant agencies	**Yes**	Despite paper application system, the relatively low volume of total applications made relevant information easily accessible by the Audit Office. Interactions with the Department of Revenue are limited to issuing credits. Interaction with County Assessors is the responsibility of Beginning Farmers.
Design incentives in ways that reduce fiscal risk:		
Capping how much programs can cost each year	**Yes**	There is a first-come first-serve cap of $2 million dollars.
Controlling the timing of incentive redemptions	**Yes**	Credits apply to a specific income tax year and must be claimed for that year. Credits for renting an asset to a beginning farmer last a maximum of three years.
Requiring lawmakers to pay for incentives through budget appropriations	**No**	The Legislature does not make budget appropriations to fund the program.
Restricting the ability of companies to redeem more in credits than they owe in taxes	**No**	All tax credits claimed under this program are fully refundable.
Linking incentives to company performance	**Yes**	The incentivized activity to claim tax credits under the program is an asset owner entering into a lease with a beginning farmer. Credits are not issued until the lease is approved by the board. No other performance is tracked.
Requiring businesses to provide advance notice of program participation	**Yes**	Applications must be approved by the Beginning Farmer Board before any credits can be claimed.

Source: Audit Office analysis of information from The Pew Charitable Trusts, *Reducing Budget Risks: Using Data and Design to Make State Tax Incentives More Predictable*, December 2015.

III. Agency Response & Fiscal Analyst’s Opinion

NEBRASKA
Good Life. Great Roots.
DEPARTMENT OF AGRICULTURE

Jim Pillen, Governor

April 3, 2025

Stephanie Meese, Legislative Auditor
Legislative Audit Office
P.O. Box 94604
State Capitol
Lincoln, NE 68509-4604

Dear. Ms. Meese:

The Nebraska Department of Agriculture (NDA) received from your office the confidential draft report regarding the legislative audit of the Nebraska Beginning Farmer Tax Credit Act: Performance on Selected Metrics. The draft report was provided to NDA on 4/1/2025.

NDA does not have any comments relating to the finding stated in the draft report.

Thank you for your time and efforts expended by the Legislative Audit Office in conducting this audit.

Sincerely,

Sherry Vinton

Sherry Vinton
Director of Agriculture

Legislative Auditor's Summary of Agency Response

This summary meets the requirement of Neb. Rev. Stat. § 50-1210 that the Legislative Auditor briefly summarize the agency's response to the draft performance audit report and describe any significant disagreements the agency has with the report or recommendations.

The Department of Agriculture provided no comments about the draft report.

State of Nebraska

LEGISLATIVE COUNCIL

www.nebraskalegislature.gov

Legislative Fiscal Office
PO Box 94604, State Capitol
Lincoln, NE 68509-4604

May 14, 2025

Stephanie Meese, Legislative Auditor
Legislative Audit Office
1225 L St. Ste 502
P.O. Box 94604
Lincoln, NE 68509

Dear Stephanie,

You have asked the Legislative Fiscal Office to review the draft report, "Nebraska Beginning Farmer Tax Credit Act: Performance on Selected Metrics" as to whether the recommendations can be implemented by the agencies within current appropriations.

The report includes a recommendation regarding internal controls for the Department of Agriculture to contact participants in active cases prior to the Beginning Farmer Board's annual case review. This contact should be used to 1) remind all participants of the responsibilities under the Act and Rules and Regulations; and 2) to ascertain information necessary for the Board to make informed judgments while performing their duties under Neb. Rev. Stat. § 77-5213. The additional contact with participants to remind them of their responsibilities and ascertain additional information to review active cases annually would likely add additional workload and appropriations needed for the Department of Agriculture.

The report recommends that if the Legislature wants Beginning Farmer tax credits to be more equitably distributed around the state, it should consider strategies for increasing participation by producers renting livestock and pastureland and targeting more northern and western counties. The report states that the Legislature could explore increasing program awareness in areas that have seen few credits. Increasing program awareness is estimated to require additional appropriations for the Department of Agriculture for resources to allow for more awareness.

The report recommends that if the Legislature would like more comprehensive and complete demographic information about participants, in addition to the optional age field on applications, it may need to require that information to be collected. This recommendation is likely to have minimal fiscal impact.

The report recommends that if the Legislature wishes to expand assistance to beginning farmers and ranchers, it should explore the use of tax credits and policies to incentivize sales of farmland to young and beginning farmers and ranchers. Depending on the legislation, this may require additional state appropriations to implement the specific legislation.

Finally, the report recommends that if the Legislature wants more complete and precise information about the property tax exemptions provided to beginning farmers, it may need to require that information to be provided to the Department of Revenue. This recommendation is likely to have minimal fiscal impact.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Keisha Patent
Legislative Fiscal Analyst