

IOWA LOCAL FARMER & FOOD SECURITY ACT

(Version 2.2)

SYNOPSIS

The objectives of the Local Farmer & Food Security Act (LFFSA) are to encourage development of small farm food production, to diversify agricultural activities with the State of Iowa, to support economic development through establishment of local food systems, and to promote food security for its citizens.

The Sections in the LFFSA establish specified tax credits issued to grocers who source local food, under contract with local producers who grow fruits, vegetables, and meats, for sale in local markets. The tax credits are enacted as a means to reduce existing artificial barriers in the marketplace faced by local food producers. Establishing reliable markets for local food producers will facilitate agricultural diversity, encourage the availability of loans to farmers seeking to make a living through food production, will promote economic opportunities to our rural communities, and will provide a local source of food as security for our citizens.

IOWA LOCAL FARMER & FOOD SECURITY ACT OF 2010

AN ACT to increase the number of small farms and local food products:

Be it enacted by the People of the State of Iowa, represented in the General Assembly:

Section 1. Short title. This Act may be cited as the "Local Farmer & Food Security Act".

Section 2. Definitions.

"Local Farm Products", under this Act, are raw fruits, vegetables, grain, legumes, and meats that are grown or raised by a Producer within the State of Iowa, from seed or conception through the final product. Local Farm Products may be minimally processed within the State of Iowa for sale within the State of Iowa.

"Minimally Processed" means that fruits and vegetables may only be washed and packaged prior to delivery; meats may be offered whole or in traditional cuts; and grains may be cleaned and sold whole or ground to flour form.

"Grocer", under this Act, means any of the following businesses:

1. A business that buys food at wholesale and regularly, and in the usual course of business, sells the food, unaltered, at retail to consumers; or
2. A business that purchases food for distribution to an outlet that regularly, and in the usual course of business, sells the food, unaltered, at retail to consumers; or
3. A business that provides food preparation services directly to a buyer of that service who is either a hospital or an educational institution.

“Producer”, under this Act, means an individual (whether acting individually or through an Iowa cooperative, corporation, partnership or other business association, or educational institution) that is the farmer, or student farmer, who grows or raises raw fruits, vegetables, grains, or meat within the State of Iowa. A Producer, acting through a business organization, may not have more than 20 employees or independent contractors during any given year (including any parent or subsidiary organization). A Producer may also include a cooperative made up of only those individuals who grow or raise raw fruits, vegetables, grains or meat that are both raised and minimally processed within the State of Iowa.

Section 3. Local Food Sourcing Tax Credit.

- 3.1 Grocers may claim as a credit against tax liability an amount equaling 20% of all sums paid for Local Farm Products under contract with Producers.
- 3.2 Except as provided in Section 3.3 below, in order to claim the credit, Grocers must be under written contract with the Producer to supply the Local Farm Products; the amount paid by Grocer for Local Farm Products is used to calculate the credit. The written contract must be entered into with Producer no earlier than 45 days prior to delivery of the Local Farm Products specified in the written contract.
- 3.3 Producers have the option to “opt-out” of any contract requirement; however, Producers must indicate a decision to opt-out in a writing signed by the Producer and provided Grocer.
- 3.4 Only a Grocer who buys Local Farm Products directly from the Producer is eligible to claim the credit under this Act.
- 3.5 The Local Food Sourcing Tax Credit shall be in effect for tax years 2010 through 2015.

Section 4. Reporting Requirements

- 4.1 Grocers shall submit a computer-generated report with tax returns that claim a tax credit under this Act.
- 4.2 The report shall include the name Producer; the physical address of farm where Local Farm Products are produced; the Local Farm Products purchased by Grocer and units purchased; the amount paid by Grocer for the Local Farm Products; the date of the written contract between Producer and Grocer; if the Grocer is a distributor or food preparation service, then shall specifically identify the retail outlet of the Local Farm Products, or hospital or educational institution who buys that service; and whether the cost of the Local Farm Products to retail consumers have been reduced by reason of the tax credit.

Analysis: Iowa Local Farmer and Food Security Act – Version 2

EXAMPLE of the Local Food Sourcing Tax Credit: Grocer pays Producers within the Local Territory \$100,000 for Local Farm Products. Grocer shall receive a 20% tax credit against tax liability that equals \$20,000. The general value to the State of Iowa equals \$138,000 assuming a conservative \$1.38 multiplier for every dollar that remains in Iowa and region.

Approximately 94% of all food purchased through Grocers is presently produced outside the State of Iowa. A large percentage of a typical dollar spent on food leaves the State of Iowa, with a small percentage remaining to pay overhead expenses of the Grocer. In other words, billions of food dollars leave the State of Iowa each year. The State of Iowa receives considerable benefits from extending the Local Food Sourcing Tax Credit.

Not only do the food dollars stay in Iowa, but also Iowa producers will increase their income, against which income tax is calculated - additional revenue to the State of Iowa.

The credit actually makes financial sense, and delivers a net financial benefit, to the State of Iowa.

Food dollars leaving the State of Iowa also means a significant reduction in overall Iowa jobs associated with food production. The disparity in existing food sourcing, with the great majority coming from outside the State of Iowa, also has a negative impact by reducing the number of farms producing food for wholesale within the State of Iowa. The reduction in the number of farms results in the reduction of farm producers – a major impediment to growing the next generation of food producers within the State of Iowa.

The typical food supply on hand at Grocers lasts for a short time. If a major event were to disrupt the food chain, it is conceivable (and likely) to create a major food shortage within the State of Iowa. Such disruption would cause starvation and panic for the general population. We might face the paradoxical situation of our citizens starving right in the heart of farm country. We presently face a small amount of disruption when nationalized food concerns are forced to recall tainted food; however, we face potentially greater disruption should a major event interrupt the chain when importing food from other states or foreign countries.

A major impediment to local Producers acquiring market share is their present inability to enter wholesale markets through supply contracts. While Grocers typically have contracts with food brokers who source food from foreign producers, local Producers are rarely permitted to enter into such supply contracts. Grocer's purchasing processes treat local producers as an anomaly, and only purchase upon inspection. Local Producers are harmed because they cannot get farm financing without supply contracts in place.

Another major impediment to local Producers is that they typically cannot compete on price with those foreign suppliers who operate on large economies of scale with low-wage labor. While foreign producers, who operate on large economies of scale, receive financial incentives from governments and utilities, local Producers have no such advantage. The Local Food Sourcing Tax Credit provides Grocers with the ability to lower the price of Local Farm Products to the end consumer – using the credit as a reduction in the price of the food item to the consumer. The credit provides incentive to Grocers to source local food for sale to consumers.

The Iowa Local Farmer and Food Security Act will be a no-lose proposition for the State of Iowa that; it will incentivize a new generation of food producer, will increase the amount of food produced in the State of Iowa, and will act as a hedge should a major event disrupt the existing food chain. The LFFSA is not a tariff (a tariff would increase costs of imported food) but, rather, is a legitimate means to offset inequities that occurs in the marketplace.

Draft Proposal – Section Provision Analysis – Version 2

Section 2. Definitions

“Local Farm Products” – definition identifies 100% local content of typical farm products. Meats must be raised within the State of Iowa and minimally processed with the State of Iowa. An objective of the Act is to increase the number of food producers, and processing facilities, within the State of Iowa.

~~[DELETED FROM VERSION 2: “Local Territory”—Defined as a farm 150 miles from the Grocer facility from which Local Farm Products are sold. The Local Territory provision is subject to differences of opinion on what constitutes local. The 150-mile radius, including that area that may extend beyond the Iowa border, is recommended for the following reasons:~~

- ~~• The Act encourages food to be produced as local as possible~~
- ~~• An area of 150 miles is reasonable for farmer collaboration on distribution, marketing, and farming logistics~~
- ~~• The 150-mile radius is reasonable to secure the intended beneficial economic effects of the tax credit for the area in question. In many areas of the State of Iowa, the farmer who benefits from the sale of Local Farm Products will spend income for goods and services within the 150-mile area.~~
- ~~• The defined Local Territory would reduce transportation costs.~~
- ~~• The Act encourages consumers to get to know the farmer growing the food. Anything beyond 150 miles reduced the success of this objective.~~

~~There has been a discussion of making this an “Iowa Farmer Only” Act. In other words, Grocers would only get the benefit of the tax credit if they purchased Local Farm Products from farms located within the State of Iowa. However, this limitation would prevent regional economic benefits from the Act. A suggestion has been made that the credit would be reduced to 10% or 15% to Grocer purchases from Producers within the 150-mile radius, but the farms are located outside the State of Iowa.]~~

“Producer” – understanding that farmers may be incorporated in some form, the definition permits the farmer to organize the farm business in any way beneficial to the farmer. A “student farmer” falls within the definition of Producer. A student farmer may be a student at a school who undertakes growing food as part of a school educational program. Schools may want to enter into agricultural endeavors that include the growing of food. It is to be encouraged that schools teach students how to grow food, and that Local Farm Products grown as a result of these programs may be sold, and the Grocer purchasing the food gets the tax credit. There has been a limit to the number of employees/independent contractors permitted to prevent large processing concerns to usurp small farm producers.

Section 3. Local Food Sourcing Tax Credit

- 3.2 The written contract requirement is critical to this Act. The reason for the 45-day provision is to prevent Grocers from not giving a contract until the food is actually delivered. It should be encouraged that the contract be entered into much longer in advance of delivery; however, the 45-day minimum provision is designed to prompt Grocers to give contracts in advance of delivery. It would be preferable to enter contracts at the end of each growing season for the following year. Furthermore, it would be encouraged to enter into contracts that extend for long periods of time.
- 3.3 Producers have the option to opt-out of any contract requirement imposed on Grocers by the Act, with the condition that a writing, signed by the Producer, specifically requests to opt-out of the requirement. The Producer may not want a contract for various reasons.

Section 4. Reporting Requirements

In order for the State of Iowa to properly evaluate the success of the program, minimal information will be required to be submitted by Grocer.