'Rate Of Interest' In Preserving Farms Grows

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LANCASTER (Lancaster Co.)

— The county's farmland preservation waiting list may soon become shorter.

Officials from the State Bureau of Farmland preservations met with approximately 100 pro-

ducers from Lancaster County to discuss the new, voluntary Installment Purchase Agreement (IPA) Program at the Farm and Home Center Wednesday evening.

Although more than 1,500 farms have been preserved across the commonwealth, 1,600 are on

county to the waiting list. Two years ago, a pilot program was established to accelerate the rate of farmland preserved.

"The genesis of this program

"The genesis of this program came from a realization in the department of agriculture that the capital gains tax can claim almost one quarter of the sale price when the landowner sells appreciated property," said speaker Pat O'Connell, Evergreen Capital Advisers, Princeton, N.J.

"This makes landowners reluctant to sell their easements if they wouldn't get enough money to make it worth their while."

The solution, said O'Connell, is the installment purchase plan.

The new IPA program should be popular with both parties.

In short, the advantage is that producers receive more than if they would get paid cash at closing. On the other hand, counties could leverage funds to buy more easements up front rather than over time when there are less farms available.

The program offers landowners capital-gains tax deferral. Producers can sell easements using agreements that defer all or part of the purchase price for up to 30 years.

The increase comes from the interest payment made until the principal is paid.

The second benefit is that the interest paid is not subject to federal or Pennsylvania state income tax.

Lastly, the seller can elect an installment method for reporting of capital gain from the sale. Capital gain from the installment sale may be deferred until the seller receives the purchase price.

The agreement is a contract between the New Garden General Authority and the property owner selling development rights. In the IPA, the Authority will pay the purchase price for an easement by the end of a period as long as 30 years. The landowner will be paid interest on the outstanding purchase price from agreement closing until the purchase price is paid to the seller.

"Counties could use state grants to buy acreage on treasuries to cover the payments due, and secure many IPAs with the treasuries. The county saves money up front, allowing it to reach a lot deeper into its waiting list — that every county has — of farmers who want to participate in these agreements," said O'Connell.

Counties
put aside
less up
front, so the
seller can

get more interest from the investment done by the county.

Deferral of payment of the purchase price for up to 30 years is expected to allow counties to make as many as five times more purchases than could otherwise be made over the short term.

Questions Answered

Once the seller enters into the sale agreement, that interest rate is locked in as a minimum interest rate. If the rate increase between the time the offer is made and the day of closing, they will receive a rate based on the market immediately prior to closing.

In the deed the owner agrees to use or maintain the property for agricultural purposes.

Payment of interest would be twice a year until the purchase price is paid. The landowner can also receive cash as determined in the agreement.

The IPA has no effect on ownership of the property. The landowner is free to sell the property at any time under the terms of the deed of easement.

After selling the property the seller would continue to receive the interest payments due under the IPA. The IPA can be sold to an investor or given away after one year.

The purchase price of the easement is established at the time that the seller signs the deed of

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Working together to preserve farmland are, from the left, presenter Pat O'Connell, Evergreen Capital Advisers, Princeton, N.J.; June Mengel, director, Lancaster County Ag Preserve Board; and Raymond Pickering, director, bureau of farmland preservation, Harrisburg.

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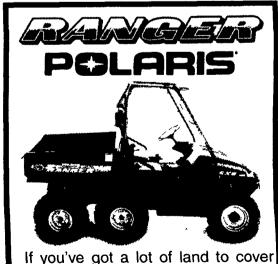
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