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[HF 2503](#) – Retired Farmer Lease Income Exclusion, Pass-Through Entities (LSB5832YH)  
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Fiscal Note Version – New

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**Description**

[House File 2503](#) allows the net income from a farm tenancy agreement for an entity taxed as a disregarded entity, a partnership for federal tax purposes, an S corporation, a trust, or an estate to be deducted from the net individual income tax for a retired farmer who materially participated in a farming business for 10 or more years.

The Bill takes effect upon enactment and is retroactively effective to tax years beginning January 1, 2023.

**Background**

Iowa Code section [422.7](#) details how net income is computed for federal income tax purposes with State adjustments. Farm tenancy income covering real property held by an individual for 10 or more years is eligible to be subtracted from net income for State tax purposes. Currently, Iowa Code section 422.7(14)(e) does not allow an entity taxed as a partnership for federal tax purposes, an S corporation, a trust, or an estate to deduct net income from a farm tenancy agreement for the net individual income tax. The Bill would remove this ineligibility.

**Assumptions**

- According to the Iowa Department of Revenue (IDR), the Bill will entail administrative costs, updated forms, administrative rules, development, enforcement costs, and other related costs that cannot be estimated due to lack of information. However, any fiscal impacts related to these challenges are not included in this ***Fiscal Note***.
- It is assumed that retired farmers who receive farm income from partnerships in 5 of the prior 12 tax years will have received at least 10 years of farm income during their entire working lives and are eligible for the deduction. According to the IDR, the total farm rental income from partnerships that is passed through to qualified retired farmers is estimated to be \$31,000 in tax year (TY) 2022.
- It is assumed that retired farmers who receive farm income from S corporations in 5 of the prior 10 tax years will have received at least 10 years of farm income during their entire working lives and are eligible for the deduction. According to the IDR, the total farm rental income from S corporations that is passed through to qualified retired farmers is estimated to be \$27.4 million in TY 2022.
- It is assumed that retired farmers who receive farm income from estates and trusts in 5 of the prior 7 tax years will have received at least 10 years of farm income during their entire working lives and are eligible for the deduction. According to the IDR, the total farm rental income from estates and trusts that is passed through to qualified retired farmers is estimated to be \$10.1 million in TY 2022.
- Qualified total farm rental income for the entities in this ***Fiscal Note*** equals \$37.6 million in TY 2023, growing annually to \$41.5 million by TY 2030.
- The marginal individual income tax rate per TY is estimated below:
  - TY 2023 — 5.43%
  - TY 2024 — 5.02%

- TY 2025 — 4.67%
- TY 2026 and after — 3.90%
- The fiscal impact of a TY would be realized in the following fiscal year, except that TY 2023 and TY 2024 fiscal impacts would both be realized in FY 2025.
- The [income surtax for schools](#) is a local option tax that is based on a taxpayer's Iowa income tax liability. Law changes that lower Iowa income tax liability also lower the amount of income surtax owed by any taxpayer subject to the surtax. For this projection, the surtax is assumed to equal 2.5% of State individual income tax liability.

### **Fiscal Impact**

The proposed deductions from the individual income tax in House File 2503 are projected to decrease net individual income tax liability and State General Fund revenue by the following amounts:

- FY 2025 = \$3.9 million
- FY 2026 = \$1.8 million
- FY 2027 = \$1.5 million
- FY 2028 = \$1.5 million
- FY 2029 = \$1.6 million
- FY 2030 = \$1.6 million

The decrease in tax liability is also projected to decrease the statewide local option income surtax for schools by the following amounts:

- FY 2025 = \$99,000
- FY 2026 = \$44,000
- FY 2027 = \$38,000
- FY 2028 = \$38,000
- FY 2029 = \$39,000
- FY 2030 = \$40,000

### **Sources**

Iowa Department of Revenue  
Legislative Services Agency analysis

/s/ Jennifer Acton

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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