

**Senate File 627 - Introduced**

SENATE FILE 627

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SF 192)

**A BILL FOR**

1 An Act relating to taking a capital gain deduction for the sale  
2 of real property used in a farming business.

3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. 2018 Iowa Acts, chapter 1161, section 113, is  
2 amended by striking the section and inserting in lieu thereof  
3 the following:

4 SEC. 113. Section 422.7, subsection 21, Code 2018, is  
5 amended by striking the subsection and inserting in lieu  
6 thereof the following:

7 21. a. For purposes of **this subsection**:

8 (1) "*Farming business*" means the production, care, growing,  
9 harvesting, preservation, handling, or storage of crops  
10 or forest or fruit trees; the production, care, feeding,  
11 management, and housing of livestock; or horticulture, all for  
12 intended profit.

13 (2) "*Held*" shall be determined with reference to the holding  
14 period provisions of section 1223 of the Internal Revenue Code  
15 and the federal regulations pursuant thereto.

16 (3) "*Livestock*" means the same as defined in section 717.1.

17 (4) "*Materially participated*" means the same as "*material*  
18 *participation*" in section 469(h) of the Internal Revenue Code.

19 (5) (a) "*Real property used in a farming business*" means  
20 all tracts of land and the improvements and structures located  
21 on them which are in good faith used primarily for a farming  
22 business. Buildings which are primarily used or intended for  
23 human habitation are deemed to be used in a farming business  
24 when the building is located on or adjacent to the parcel  
25 used in the farming business. Land and the nonresidential  
26 improvements and structures located on it shall be considered  
27 to be used primarily in a farming business include but are  
28 not limited to land, improvements or structures used for the  
29 storage or maintenance of farm machinery or equipment, for the  
30 drying, storage, handling, or preservation of agricultural  
31 crops, or for the storage of farm inputs, feed, or manure.  
32 Real property used in a farming business shall also include  
33 woodland, wasteland, pastureland, and idled land used for the  
34 conservation of natural resources including soil and water.

35 (b) Real property classified as agricultural property for

1 Iowa property tax purposes, except real property described  
2 in section 441.21, subsection 12, paragraph "a" or "b",  
3 shall be presumed to be real property used in a farming  
4 business. This presumption is rebuttable by the department by  
5 a preponderance of evidence that the real property did not meet  
6 the requirements of subparagraph division (a).

7 (6) "Relative" means a person that satisfies one or more of  
8 the following conditions:

9 (a) The individual is related to the taxpayer by  
10 consanguinity or affinity within the second degree as  
11 determined by common law.

12 (b) The individual is a lineal descendent of the taxpayer.  
13 For purposes of this subparagraph division, "lineal descendent"  
14 means children of the taxpayer, including legally adopted  
15 children and biological children, stepchildren, grandchildren,  
16 great-grandchildren, and any other lineal descendent of the  
17 taxpayer.

18 (c) An entity in which an individual who satisfies the  
19 conditions of either subparagraph division (a) or (b) has a  
20 legal or equitable interest as an owner, member, partner, or  
21 beneficiary.

22 b. Subtract the net capital gain from the sale of real  
23 property used in a farming business if one of the following  
24 conditions are satisfied:

25 (1) The taxpayer has materially participated in a farming  
26 business for a minimum of ten years and has held the real  
27 property used in a farming business for a minimum of ten years.

28 (2) The taxpayer has held the real property used in a  
29 farming business which is sold to a relative of the taxpayer.

30 EXPLANATION

31 The inclusion of this explanation does not constitute agreement with  
32 the explanation's substance by the members of the general assembly.

33 This bill modifies the capital gain deduction for the sale of  
34 real property used in a farming business enacted in 2018 Iowa  
35 Acts, chapter 1161, section 113. The capital gain deduction

1 for the sale of real property used in a farming business is set  
2 to begin in tax year 2023 or in a later tax year, contingent  
3 upon the satisfaction of certain net general fund revenue  
4 amount and growth targets.

5 Currently, the capital gain deduction for the sale of real  
6 property used in a "farming business" set to go into effect  
7 in 2023 or a later tax year restricts the deduction to the  
8 sale of "real property used in a farming business", provided  
9 the taxpayer "materially participated" in the farming business  
10 for at least 10 years, held the real property for at least  
11 10 years, and sold the real property to a "relative", all as  
12 defined in 2018 Iowa Acts, chapter 1161.

13 The bill modifies the restrictions relating to the deduction  
14 for the sale of real property used in farming business by  
15 permitting the taxpayer to take the deduction if one of the  
16 following apply: the taxpayer "materially participated" in  
17 the farming business for at least 10 years and held the real  
18 property for at least 10 years; or the taxpayer sold the real  
19 property to a "relative". The bill expands the definition of  
20 "relative" to include an entity in which a relative of the  
21 taxpayer has a legal or equitable interest in the entity as an  
22 owner, member, partner, or beneficiary.

23 The bill also modifies the definitions of "farming business"  
24 and "real property used in a farming business". The bill  
25 defines "livestock" to mean the same as defined in Code section  
26 717.1, which is used in the definition of farming business.

27 The bill strikes provisions related to restricting the  
28 capital gain deduction for the sale of real property used in a  
29 farming business if the relative sells or transfers the real  
30 property used in a farming business within five years of the  
31 original sale.

32 The bill also strikes a provision providing that to the  
33 extent otherwise allowed, the capital gain deduction for the  
34 sale of real property used in a "farming business" shall not be  
35 allowed for purposes of computing income for the taxable year

S.F. 627

1 or years for which a net operating loss is deducted under the  
2 Internal Revenue Code or under Code section 422.9 (deductions  
3 from net income).

4 The bill does not change the future effective date of the  
5 capital gain deduction for the sale of real property used in a  
6 farming business.