

**House File 2503 - Introduced**

HOUSE FILE 2503

BY GUSTOFF

**A BILL FOR**

1 An Act relating to the farm tenancy net income exclusion  
2 available against the individual income tax, and including  
3 effective date and retroactive applicability provisions.  
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.7, subsection 14, paragraph e, Code  
2 2024, is amended by striking the paragraph and inserting in  
3 lieu thereof the following:

4 e. Net income from a farm tenancy agreement earned,  
5 received, or reported by an entity taxed as a disregarded  
6 entity, partnership for federal tax purposes, an S corporation,  
7 a trust, or estate is eligible for the election and deduction  
8 in this subsection for the portion of net income derived from  
9 a farm tenancy agreement if the eligible individual receives  
10 or is entitled to receive the portion of net income through  
11 distributions from an entity taxed as a disregarded entity,  
12 a partnership, an S corporation, a trust, or an estate, to  
13 the same extent that an eligible individual could subtract  
14 net income received directly from the farm tenant rather than  
15 passing to the eligible individual through an entity taxed  
16 as a disregarded entity, a partnership, an S corporation, a  
17 trust, or an estate. For purposes of this paragraph, net  
18 income accruing to a grantor trust or to a business entity  
19 that is a disregarded entity shall be deemed to have been  
20 distributed to its sole owner to the extent the sole owner of  
21 such disregarded entity or trust has the right to withdraw or  
22 compel distribution of such net income.

23 Sec. 2. EFFECTIVE DATE. This Act, being deemed of immediate  
24 importance, takes effect upon enactment.

25 Sec. 3. RETROACTIVE APPLICABILITY. This Act applies  
26 retroactively to January 1, 2023, for tax years beginning on  
27 or after that date.

28 EXPLANATION

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

31 Current law excludes from the individual income tax a  
32 retired farmer's total net income received pursuant to a  
33 farm tenancy agreement covering real property held by the  
34 retired farmer for 10 or more years, if the farmer materially  
35 participated in a farming business for 10 or more years. Under

1 current law, net income from a farm tenancy agreement earned by  
2 an entity taxed as a partnership for federal tax purposes, an S  
3 corporation, or a trust or estate is not eligible for the farm  
4 tenancy lease income exclusion.

5 This bill allows the net income from a farm tenancy  
6 agreement earned, received, or reported by an entity taxed as a  
7 disregarded entity, partnership for federal tax purposes, an  
8 S corporation, a trust, or estate to be eligible for the farm  
9 tenancy lease income exclusion in the same manner as if the  
10 net income received pursuant to a farm tenancy passes directly  
11 from the farm tenant to the eligible individual rather than  
12 passing to the eligible individual through an entity taxed as a  
13 disregarded entity, a partnership, an S corporation, a trust,  
14 or an estate. The bill allows net income accruing to a grantor  
15 trust or to a business entity that is a disregarded entity  
16 to be deemed to have been distributed to its sole owner to  
17 the extent the sole owner of such disregarded entity or trust  
18 has the right to withdraw or compel distribution of such net  
19 income.

20 The bill takes effect upon enactment and applies  
21 retroactively to tax years beginning on or after January 1,  
22 2023.