

House File 2732 - Introduced

HOUSE FILE 2732
BY TUREK

A BILL FOR

- 1 An Act providing for water quality practices, including an
- 2 edge-of-field practice tax credit and cover crop practice tax
- 3 credit.
- 4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

unofficial

1 Section 1. NEW SECTION. **159.5A Water quality practice.**

2 1. The department, acting through the division of soil
3 conservation and water quality, may enter onto land in order to
4 inspect a water quality practice and verify that such practice
5 has been established and maintained as required in chapter 467.
6 In entering onto the land, the division shall have the powers
7 conferred upon commissioners of soil and water conservation
8 districts under chapter 161A as if the water quality practice
9 were a soil and water conservation practice or erosion control
10 practice established on a voluntary or mandatory basis using
11 cost-share moneys.

12 2. Subsection 1 does not require the department to enter onto
13 land to inspect and verify the establishment or maintenance of a
14 water quality practice.

15 Sec. 2. NEW SECTION. **161A.11 Water quality practice —**
16 **cooperation with the division.**

17 The commissioners of a district where a water quality practice
18 is to be or has been established under chapter 467 are deemed to
19 be the agents of the division and shall act under the direction
20 and supervision of the division in entering onto land located in
21 the district in order to inspect a water quality practice and
22 verify that it has been established and maintained as required
23 in chapter 467. In entering onto the land, the commissioners
24 have all the powers conferred upon them under this chapter as
25 if the water quality practice were a soil and water conservation
26 practice or erosion control practice established on a voluntary
27 or mandatory basis using cost-share moneys.

28 Sec. 3. NEW SECTION. **161A.77 Limitations on financial**
29 **assistance — water quality practice tax credits.**

30 A person is not eligible to receive an award of financial
31 assistance that is not required to be repaid by the recipient,
32 including but not limited to cost-share moneys under this
33 chapter, for that portion of the amount awarded under the water
34 quality practice program as either an edge-of-field practice tax
35 credit or cover crop practice tax credit under chapter 467.

1 Sec. 4. NEW SECTION. **422.11K Water quality practice program**
2 **— tax credits.**

3 1. The taxes imposed under this subchapter, less the
4 credits allowed under section 422.12, shall be reduced by an
5 edge-of-field practice tax credit allowed under chapter 467.

6 2. The taxes imposed under this subchapter, less the credits
7 allowed under section 422.12, shall be reduced by a cover crop
8 practice tax credit allowed under chapter 467.

9 Sec. 5. Section 422.33, Code 2026, is amended by adding the
10 following new subsection:

11 NEW SUBSECTION. 24. a. The taxes imposed under this
12 subchapter, less the credits allowed under section 422.12, shall
13 be reduced by an edge-of-field practice tax credit allowed under
14 chapter 467.

15 b. The taxes imposed under this subchapter, less the credits
16 allowed under section 422.12, shall be reduced by a cover crop
17 practice tax credit allowed under chapter 467.

18 Sec. 6. NEW SECTION. **467.1 Definitions.**

19 As used in this chapter, unless the context otherwise
20 requires:

21 1. a. "Cover crop" means a water quality practice that is
22 planted for seasonal vegetative cover and that is all of the
23 following:

24 (1) Part of a crop rotation cycle.

25 (2) Not intended for harvest.

26 (3) Established in a manner that promotes soil health.

27 b. "Cover crop" includes grasses, legumes, forbs, and other
28 vegetation specified by the department.

29 2. "Cropland" means any land suitable for use to produce
30 grains, seed crops, and forages.

31 3. "Department" means the department of agriculture and land
32 stewardship.

33 4. a. "Edge-of-field practice" means a water quality
34 practice designed to slow, filter, and process surface and
35 subsurface water draining from cropland.

1 *b. "Edge-of-field practice"* includes all of the following:

2 (1) A bioreactor installed as part of or connected to a field
3 drainage system.

4 (2) A wetland established as part of or connected to a crop
5 field.

6 (3) A saturated buffer.

7 (4) Cropland integrated with a prairie grass strip.

8 (5) A riparian buffer strip.

9 (6) A grassed waterway.

10 (7) An area maintained in permanent vegetation cover,
11 including perennial vegetation cover consisting of grasses or
12 legumes, including but not limited to grasslands or forages.

13 (8) A wetland area if the area is mostly underwater or
14 waterlogged during the growing season and is characterized by
15 vegetation of hydric soils.

16 (9) Any other measure recognized by the department that
17 manages nutrients and reduces contributing contaminant loads to
18 receiving surface waters, including by detaining sediment-laden
19 water, reducing the volume or velocity of precipitation-induced
20 surface water, filtering sediment-laden water, or reducing
21 nutrient loss through tile drainage systems.

22 5. "*Eligible taxpayer*" means a person that meets all of the
23 following requirements:

24 *a.* Is eligible to claim the family farm tax credit under
25 chapter 425A.

26 *b.* Has a net worth not exceeding two million dollars
27 according to generally accepted accounting principles.

28 6. "*Farming practice*" includes but is not limited to a
29 decision regarding crop production, including crop types and
30 varieties to plant, cultivation and harvesting methods, and
31 the application of materials including manure and commercial
32 fertilizers, tillage, and crop rotation systems.

33 7. "*Soil and water conservation practice*" means the same as
34 defined in section 161A.42.

35 8. "*Soil health*" means the continued capacity of soil to

1 permanently sustain plant and animal life.

2 9. "State fiscal year" means the fiscal year described in
3 section 3.12.

4 10. "Tax credit" means any of the following:

5 a. An edge-of-field practice tax credit.

6 b. A cover crop practice tax credit.

7 11. "Water quality practice" means any of the following:

8 a. An edge-of-field practice.

9 b. A cover crop practice.

10 Sec. 7. NEW SECTION. **467.2 Water quality practice program**
11 **— administration.**

12 1. This chapter shall be administered by the department of
13 agriculture and land stewardship. The department of revenue
14 shall cooperate with the department of agriculture and land
15 stewardship in administering this chapter.

16 2. The department of agriculture and land stewardship and the
17 department of revenue shall adopt rules pursuant to chapter 17A
18 necessary or desirable to administer this chapter.

19 Sec. 8. NEW SECTION. **467.3 Water quality practice program**
20 **— purpose.**

21 1. A water quality practice program is established in the
22 department of agriculture and land stewardship.

23 2. The purpose of the program is to establish new water
24 quality practices as part of existing farming practices,
25 including by providing for the establishment of measures that
26 limit sediment or nutrients from being conveyed by subsurface
27 drainage or surface water runoff or leaching and that may be part
28 of a soil and water conservation practice and that may promote
29 soil health.

30 Sec. 9. NEW SECTION. **467.11 Edge-of-field practice tax**
31 **credit.**

32 As part of the water quality practice program as provided in
33 section 467.3, an edge-of-field practice tax credit is allowed
34 against the taxes imposed in chapter 422, subchapter II, as
35 provided in section 422.11K, and in chapter 422, subchapter III,

1 as provided in section 422.33, subsection 24.

2 Sec. 10. NEW SECTION. **467.12 Cover crop practice tax**
3 **credit.**

4 As part of the water quality practice program as provided
5 in section 467.3, a cover crop practice tax credit is allowed
6 against the taxes imposed in chapter 422, subchapter II, as
7 provided in section 422.11K, and in chapter 422, subchapter III,
8 as provided in section 422.33, subsection 24.

9 Sec. 11. NEW SECTION. **467.13 Tax credit application —**
10 **approval process.**

11 1. The department of agriculture and land stewardship, in
12 cooperation with the department of revenue, shall establish
13 criteria and procedures for the review and approval or
14 disapproval of applications submitted by persons seeking to
15 participate in the water quality practice program by being
16 awarded any of the following:

17 a. An edge-of-field practice tax credit. The amount of the
18 tax credit shall not exceed fifty percent of the estimated or
19 actual cost of establishing the edge-of-field practice, whichever
20 is less.

21 b. A cover crop practice tax credit. The amount of the tax
22 credit shall not exceed fifty percent of the estimated or actual
23 cost of establishing the cover crop practice, whichever is less.

24 2. The department shall not approve an application under
25 subsection 1 unless all of the following apply:

26 a. The person is an eligible taxpayer.

27 b. The person agrees to establish and maintain a water
28 quality practice associated with an edge-of-field practice tax
29 credit or a cover crop practice tax credit for not less than ten
30 years.

31 3. An eligible taxpayer may apply for and be approved for the
32 establishment of both an edge-of-field practice tax credit and
33 a cover crop practice tax credit, as described in subsection 1,
34 so long as each application applies to the establishment of a
35 separate and distinct water quality practice.

1 Sec. 12. NEW SECTION. **467.14 Tax credit application —**
2 **approval.**

3 1. Subject to subsection 2, the department shall approve
4 applications to participate in the water quality practice program
5 by awarding a tax credit pursuant to section 467.13 on a
6 first-come, first-served basis.

7 2. The department shall not approve an application if the
8 aggregate amount awarded for all tax credit awards exceeds ten
9 million dollars in any state fiscal year.

10 3. Applications that were approved by the department but for
11 which a tax credit was not awarded shall be placed on a wait
12 list in the order that the applications were received by the
13 department and shall be given priority for being awarded a tax
14 credit in the succeeding state fiscal year.

15 Sec. 13. NEW SECTION. **467.15 Tax credit award.**

16 1. After the department of agriculture and land stewardship
17 has approved all applications by eligible taxpayers participating
18 in the water quality practice program under section 467.14,
19 and after the department has approved all eligible taxpayers'
20 corresponding tax credit awards, the department shall do one of
21 the following:

22 a. Issue a tax credit certificate to each eligible taxpayer
23 that has been awarded an edge-of-field practice tax credit.

24 b. Issue a tax credit certificate to each eligible taxpayer
25 that has been awarded a cover crop practice tax credit.

26 2. The tax credit certificate shall be issued and contain the
27 information required by the department of revenue.

28 3. Under either tax credit, an individual may claim the
29 tax credit as a partnership, limited liability company, S
30 corporation, estate, or trust electing to have income taxed
31 directly to the individual. The amount claimed by the individual
32 shall be based upon the pro rata share of the individual's
33 earnings from the partnership, limited liability company, S
34 corporation, estate, or trust.

35 4. To claim the relevant tax credit, an eligible taxpayer

1 shall include a tax credit certificate for that tax credit with
2 the eligible taxpayer's tax return pursuant to rules adopted by
3 the department of revenue.

4 5. A tax credit certificate, unless rescinded by the
5 department of agriculture and land stewardship, shall be accepted
6 by the department of revenue as payment for taxes pursuant to
7 chapter 422, subchapters II and III, subject to any conditions
8 or restrictions placed by the department of agriculture and land
9 stewardship upon the face of the tax credit certificate and
10 subject to the limitations of the water quality practice program,
11 including the application approved by the department.

12 Sec. 14. NEW SECTION. **467.16 Tax credit award —**
13 **limitations.**

14 1. A tax credit awarded under section 467.15 to an eligible
15 taxpayer shall not be transferable to any other person other
16 than the eligible taxpayer's estate or trust upon the eligible
17 taxpayer's death pursuant to rules adopted by the department of
18 agriculture and land stewardship.

19 2. A tax credit in excess of the eligible taxpayer's tax
20 liability for the tax year is not refundable but may be credited
21 to the tax liability for the following ten tax years or until
22 depleted, whichever is earlier. A tax credit shall not be
23 carried back to a tax year prior to the tax year in which the
24 eligible taxpayer redeems the tax credit.

25 3. If the eligible taxpayer fails to comply with any
26 requirement of the water quality practice program or the terms
27 of the approved application, as determined by the department
28 of agriculture and land stewardship, that department may revoke
29 the tax credit award and may rescind any tax credit certificate
30 that has been issued. The department of agriculture and land
31 stewardship shall notify the department of revenue of any
32 required repayment of an awarded tax credit. Such repayment
33 shall be considered a tax payment due and payable to the
34 department of revenue by any taxpayer that claimed the tax
35 credit, and the taxpayer's failure to make the repayment may be

1 treated by the department of revenue in the same manner as a
2 failure to pay the tax shown due, or required to be shown due,
3 with the filing of a return or deposit form.

4 EXPLANATION

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

7 GENERAL PROVISIONS. This bill provides for a water quality
8 practice program (program) administered by the department of
9 agriculture and land stewardship (DALs) in cooperation with the
10 department of revenue (DOR). The purpose of the program is
11 to establish new water quality practices as part of existing
12 farming practices, including by providing for the establishment
13 of measures that limit sediment or nutrients from being conveyed
14 by subsurface drainage or surface water runoff or leaching and
15 that may be part of a soil and water conservation practice and
16 that may promote soil health.

17 TAX CREDIT PROVISIONS. The program provides for two separate
18 tax credits: (1) an edge-of-field practice tax credit and (2)
19 a cover crop practice tax credit. The bill provides for the
20 consideration and approval of applications submitted to DALs by
21 eligible taxpayers seeking to participate in the program. A
22 person is eligible to participate in the program if the person is
23 eligible to claim the family farm tax credit (Code chapter 425A)
24 and has a net worth not exceeding
25 \$2 million. The person must also agree to establish and maintain
26 a water quality practice associated with a tax credit for at
27 least 10 years. The amount of the tax credit cannot exceed 50
28 percent of the estimated or actual cost of establishing the water
29 quality practice, whichever is less. DALs cannot approve an
30 application, if the aggregate amount awarded for all tax credit
31 awards exceeds \$10 million in any state fiscal year (July 1
32 through June 30). Upon approval of a tax credit award, DALs
33 must issue the eligible taxpayer a tax credit certificate to be
34 included as part of the eligible taxpayer's tax return according
35 to DOR requirements. The bill provides limitations upon the

1 transferability of a tax credit and the use of the tax credit to
2 offset income.

3 ENFORCEMENT. DALS or a commissioner of a soil and water
4 conservation district is authorized to enter onto land where
5 a water quality practice is established in the same manner as
6 a commissioner may enter on the land where a soil and water
7 conservation practice financed with state cost-share moneys is
8 established (Code chapter 161A). If the eligible taxpayer fails
9 to comply with any requirement of the program or the terms of the
10 approved application, DALS may revoke the tax credit award and
11 may rescind any tax credit certificate that has been issued. In
12 that case, DOR must seek repayment of the tax credit award by
13 considering the repayment amount as a past due tax amount.

unofficial