

House File 2732 - Introduced

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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
3 tax credit.

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

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

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

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

1 tax credit or cover crop practice tax credit under chapter 467.

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

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

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

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

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

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

19 Sec. 6. NEW SECTION. 467.1 Definitions.

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

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

25 (1) Part of a crop rotation cycle.

26 (2) Not intended for harvest.

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

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

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

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

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

1 subsurface water draining from cropland.

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

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

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

7 (3) A saturated buffer.

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

9 (5) A riparian buffer strip.

10 (6) A grassed waterway.

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

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

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

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

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

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

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

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

1 8. "*Soil health*" means the continued capacity of soil to
2 permanently sustain plant and animal life.

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

5 10. "*Tax credit*" means any of the following:

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

7 b. A cover crop practice tax credit.

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

9 a. An edge-of-field practice.

10 b. A cover crop practice.

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

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

17 2. The department of agriculture and land stewardship and
18 the department of revenue shall adopt rules pursuant to chapter
19 17A necessary or desirable to administer this chapter.

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

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

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

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

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

1 provided in section 422.11K, and in chapter 422, subchapter
2 III, as provided in section 422.33, subsection 24.

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

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

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

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

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

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

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

28 a. The person is an eligible taxpayer.

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

33 3. An eligible taxpayer may apply for and be approved
34 for the establishment of both an edge-of-field practice tax
35 credit and a cover crop practice tax credit, as described

1 in subsection 1, so long as each application applies to
2 the establishment of a separate and distinct water quality
3 practice.

4 Sec. 12. NEW SECTION. **467.14 Tax credit application —**
5 **approval.**

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

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

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

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

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

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

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

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

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

1 individual's earnings from the partnership, limited liability
2 company, S corporation, estate, or trust.

3 4. To claim the relevant tax credit, an eligible taxpayer
4 shall include a tax credit certificate for that tax credit with
5 the eligible taxpayer's tax return pursuant to rules adopted
6 by the department of revenue.

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

16 Sec. 14. NEW SECTION. 467.16 Tax credit award —
17 limitations.

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

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

29 3. If the eligible taxpayer fails to comply with any
30 requirement of the water quality practice program or the terms
31 of the approved application, as determined by the department of
32 agriculture and land stewardship, that department may revoke
33 the tax credit award and may rescind any tax credit certificate
34 that has been issued. The department of agriculture and land
35 stewardship shall notify the department of revenue of any

1 required repayment of an awarded tax credit. Such repayment
2 shall be considered a tax payment due and payable to the
3 department of revenue by any taxpayer that claimed the tax
4 credit, and the taxpayer's failure to make the repayment may
5 be treated by the department of revenue in the same manner as a
6 failure to pay the tax shown due, or required to be shown due,
7 with the filing of a return or deposit form.

8

EXPLANATION

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

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

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

1 state fiscal year (July 1 through June 30). Upon approval of
2 a tax credit award, DALs must issue the eligible taxpayer a
3 tax credit certificate to be included as part of the eligible
4 taxpayer's tax return according to DOR requirements. The bill
5 provides limitations upon the transferability of a tax credit
6 and the use of the tax credit to offset income.

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