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[HF 2649](#) – Capital Gains Deduction, Sale of Livestock (LSB5662HV.1)  
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Fiscal Note Version – As amended by and passed by the House

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### **Description**

[House File 2649](#) excludes the net capital gain from the sale of livestock from the computation of net income for individual income taxpayers. The Bill:

- Allows a taxpayer to exclude the net capital gain from the sale of cattle or horses if held by the taxpayer for more than 24 months if the taxpayer receives more than 50.0% of gross income from farming or ranching operations during the tax year.
- Allows a taxpayer to exclude the net capital gain from the sale of breeding livestock if held by the taxpayer for more than 12 months if the taxpayer receives more than 50.0% of gross income from farming or ranching operations during the tax year.
- The Bill disallows a retired farmer from taking the exclusion if the retired farmer takes a similar exclusion allowed in Iowa Code section [422.7\(13\)](#).

The Bill is retroactively effective to January 1, 2023, for tax years beginning on or after that date.

### **Background**

[Section 1223](#) of the Internal Revenue Code defines the length of time in the Bill a farmer is required to hold cattle, horses, or breeding livestock for purposes of a net capital gain exclusion.

2022 Iowa Acts, [House File 2317](#) (Income Tax Rate Reduction and Exemptions Act), created new net income exclusions for retired farmers. Iowa Code section 422.7(13) allows retired farmers to take net capital gain exclusions from their net income from the sale of cattle, horses, or breeding livestock, but only if the taxpayer materially participated in the farming business for five of the eight years preceding the farmer's retirement or disability and the taxpayer has sold all or substantially all of the taxpayer's interest in the farming business by the time the election is made.

### **Assumptions**

- Taxpayers who record at least one-half of their gross income from farming or ranching operations according to the [IA 100A](#) form are eligible for the capital gains deduction. On average, between tax year (TY) 2016 and TY 2021, taxpayers claimed \$70.5 million in capital gains through livestock sales.
- Approximately 76.0% of capital gains through livestock sales will be made exempt due to the Bill. It is estimated that the amount of capital gains that will be made exempt will be \$52.1 million in TY 2023.
- Annual increases in capital gains exemptions will be 2.8% in TY 2024, 2.3% in TY 2025, 2.3% in TY 2026, and 2.2% in TY 2027 and beyond, equaling the estimated consumer price index (CPI) consensus estimations from Moody's Analytics.
- The marginal State tax rate is estimated to be 5.0% in TY 2023 and TY 2024, 4.7% in TY 2025, and 3.9% in TY 2026 and beyond.
- It is assumed the impacts of a tax year under the Bill will be realized when taxpayers file returns in the corresponding fiscal year. The first year of fiscal impacts due to the Bill is FY 2025 for TY 2023 and TY 2024. TY 2025 impacts will occur in FY 2026.

- Changes proposed in the Bill will include administrative costs, administrative rule development, and enforcement and related costs. These cannot be estimated in this **Fiscal Note** due to a lack of information.
- 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 exclusions from the individual income tax in House File 2649 are projected to decrease net individual income tax liability and State General Fund revenue by the following amounts:

- FY 2025 = \$5.3 million
- FY 2026 = \$2.6 million
- FY 2027 = \$2.2 million
- FY 2028 = \$2.2 million
- FY 2029 = \$2.3 million
- FY 2030 = \$2.3 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 = \$133,000
- FY 2026 = \$64,000
- FY 2027 = \$55,000
- FY 2028 = \$56,000
- FY 2029 = \$57,000
- FY 2030 = \$59,000

### **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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