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## Iowa Capital Gain Deduction

Roger A. McEowen

Kansas Farm Bureau Professor of Agricultural Law and Taxation  
Washburn University School of Law, Topeka, KS

[roger.mceowen@washburn.edu](mailto:roger.mceowen@washburn.edu)

### Overview

The Iowa capital gain deduction (Iowa Code § 421(7)) is 100 percent for qualifying capital gains. In general, two major requirements must be satisfied to get the deduction:

- (1) the property being sold must have been "held" by the taxpayer for the immediately preceding 10 years before the sale; and
- (2) the taxpayer must satisfy a material participation requirement.

If those requirements can be satisfied, then the resulting capital gain can be fully deducted for sales attributable to such things as farmland, business assets, certain types of breeding livestock, and timber.

The Iowa Department of Revenue (IDOR) has provided capital gain deduction flowcharts and checklists to assist in determining eligibility for the deduction. Those flowcharts are provided below. They are useful as a general guide to understanding how the Department views the mechanics of the deduction with respect to various types of asset sales.

In addition, the IDOR has released the updated IA 100 Forms for 2016. The forms address the various types of asset sales that are potentially eligible for the capital gain deduction. One issue that remains outstanding is how the gain is to be handled for farmland held in trust that is sold post-death with the gain then passed out to the beneficiaries. If the trust satisfies the 10-year test and the trustees satisfy the material participation test (thereby qualifying the trust for the deduction), is the resulting gain on sale by the trust eligible for the deduction in the hands on non-material participating beneficiaries? That's an issue yet to be resolved.

Originally published 10/14/2016; updated 11/7/2016.



This deduction is subject to review by the Iowa Department of Revenue.

Should the Department request it, the information below will be needed in order to verify whether you qualify for the deduction on line 23 of the IA1040. Other information, in addition to that shown on this checklist, may also be required in some situations.

Gains from the sale of stocks or bonds do not qualify for the deduction, with the following exception: effective with tax year 2012, 50% of the gain from the sale/exchange of employer securities of an Iowa corporation to a qualified Iowa employee stock ownership plan (ESOP) may be eligible for the Iowa capital gain deduction. To be eligible, the Iowa ESOP must own at least 30% of all outstanding employer securities issued by the Iowa Corporation after completion of the transaction.

Location of property: \_\_\_\_\_

Intended use of property: \_\_\_\_\_

Actual use of property: \_\_\_\_\_

Acquisition date: \_\_\_\_\_ How acquired: \_\_\_\_\_

Date of sale: \_\_\_\_\_ Term of sale (completed sale or installment sale): \_\_\_\_\_

Purchaser: \_\_\_\_\_

Purchaser's relationship to owner (if any): \_\_\_\_\_

**Part 1: Material participation test for sale of real property or sale of business. Taxpayer must meet at least one of the following to qualify (check all that apply):**

Detailed records should be kept by the taxpayer (on as close to a daily basis as possible) because the burden of proof is on the taxpayer to demonstrate material participation. Submit a copy of your records.

- Taxpayer participates more than 500 hours in the tax year.
- Taxpayer participation constitutes all the participation in the business.
- Taxpayer participates more than 100 hours in the tax year and no one else participates more.
- Taxpayer participates in two or more businesses, excluding rental business, and participates more than 500 hours in all businesses, or more than 100 hours in each business.
- Taxpayer participates in 5 of the last 10 years.
- Taxpayer participates in personal service activity for at least 3 years.
- Taxpayer participates more than 100 hours and based on the facts and circumstances, participates on a regular, continuous, and substantial basis.

# Iowa Capital Gain Deduction Worksheet pg. 2

## Part 2: Sale of Farmland

1. Are you a retired farmer? Yes  No

If yes, provide the date you began receiving Social Security old-age benefits: \_\_\_\_\_

2. Are you a disabled farmer? Yes  No

If yes, provide the date your disability began: \_\_\_\_\_

3. Are you a surviving spouse of a farmer? Yes  No

If yes, were you retired on the date of your spouse's death? Yes  No

4. How was farm real estate operated? (check one)

By taxpayer  Cash rent  Crop Share

If crop share, was the income reported on federal form 4835? Yes  No

If crop share, was the income subject to self-employment tax? Yes  No

## Part 3: Sale of Business

1. What types of assets were sold? \_\_\_\_\_

Fair market value of assets sold: \_\_\_\_\_

2. What types of assets were not sold? \_\_\_\_\_

Fair market value of assets not sold: \$ \_\_\_\_\_

3. What were the duties of the owner(s)? \_\_\_\_\_

\_\_\_\_\_

4. Was gain reported under IRC section 331 or 338? Yes  No

## Part 4: Sale of Cattle / Horses and Breeding Livestock

1. Was more than 50% of your gross income from farming or ranching activities? Yes  No

2. What types of animals were sold? \_\_\_\_\_

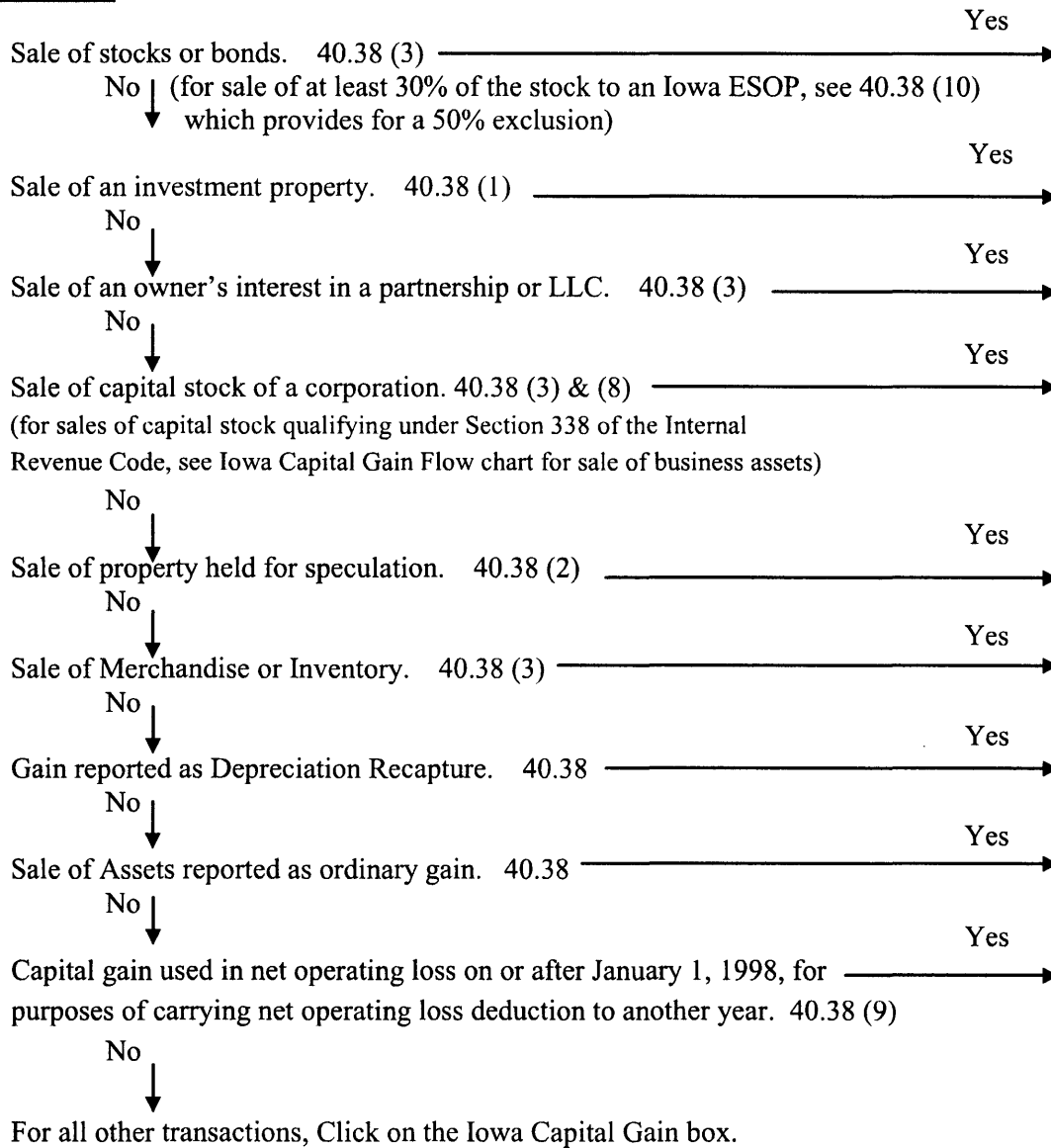
3. For what purpose were these animals kept? \_\_\_\_\_

## Part 5: Sale of Timber

1. Was gain reported under IRC section 1231? Yes  No

## MISCELLANEOUS TRANSACTIONS

### 701 IAC 40.38



May qualify for a capital gain deduction, but not greater than the qualifying gain.

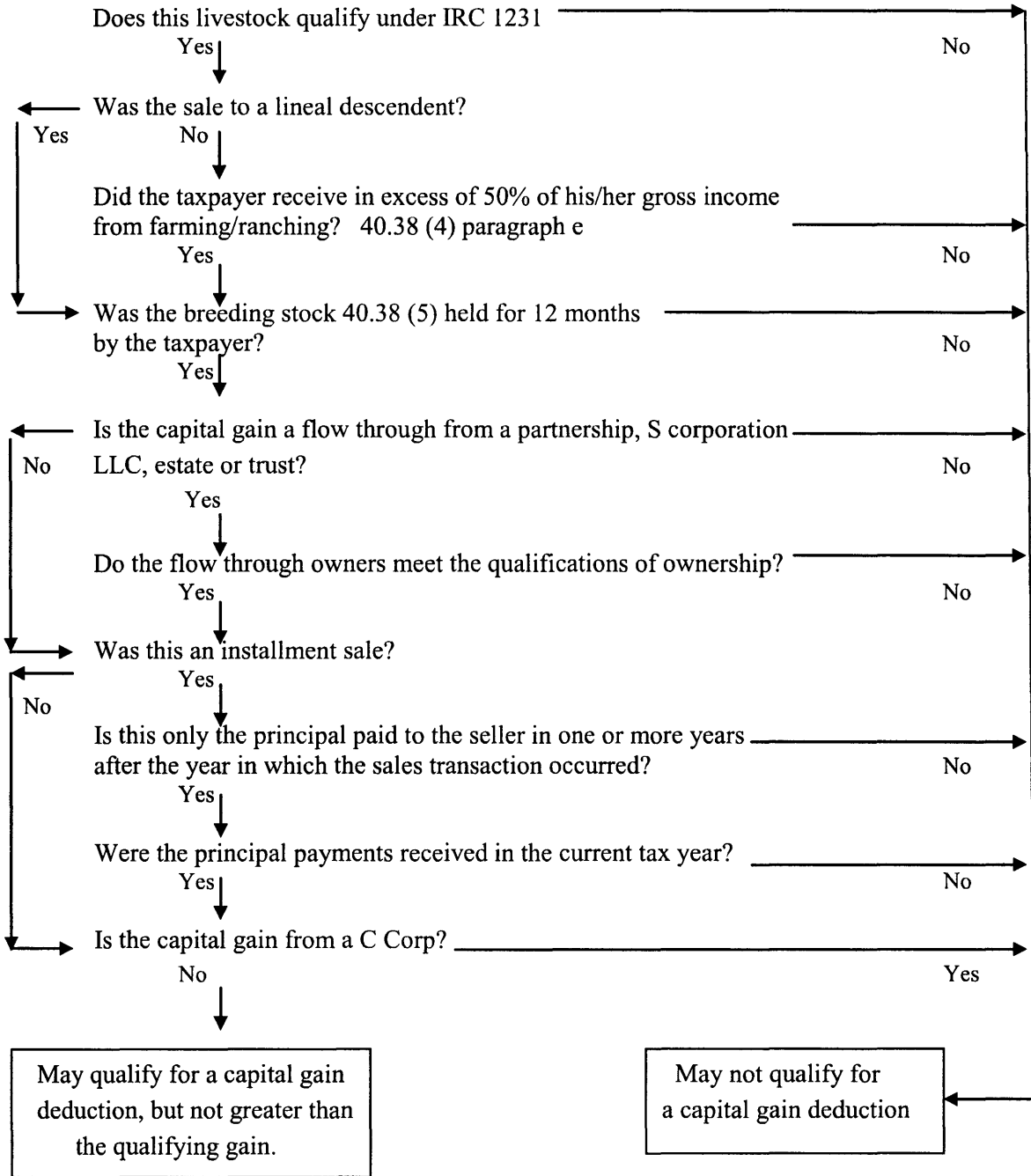
No, does not qualify even when sold to lineal descendants or as an installment sale.

**BREEDING STOCK, OTHER  
Than CATTLE & HORSES**

(NOTE: Material participation not required to qualify for these types of sales)

**701 IAC 40.38**

**IRC**

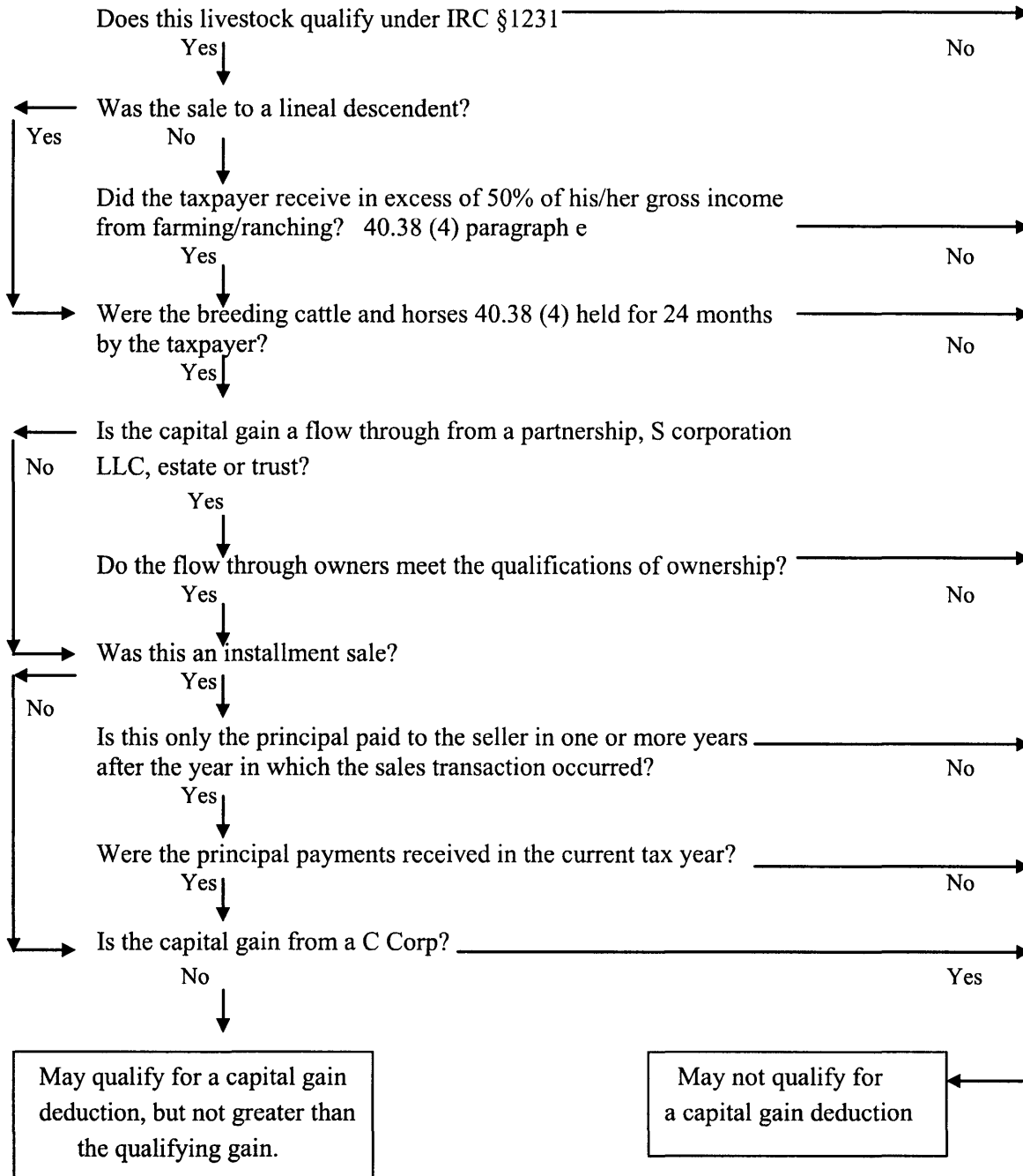


**CATTLE & HORSES used for BREEDING  
DRAFT, DAIRY or SPORTING PURPOSES**

(NOTE: Material participation not required to qualify for these types of sales)

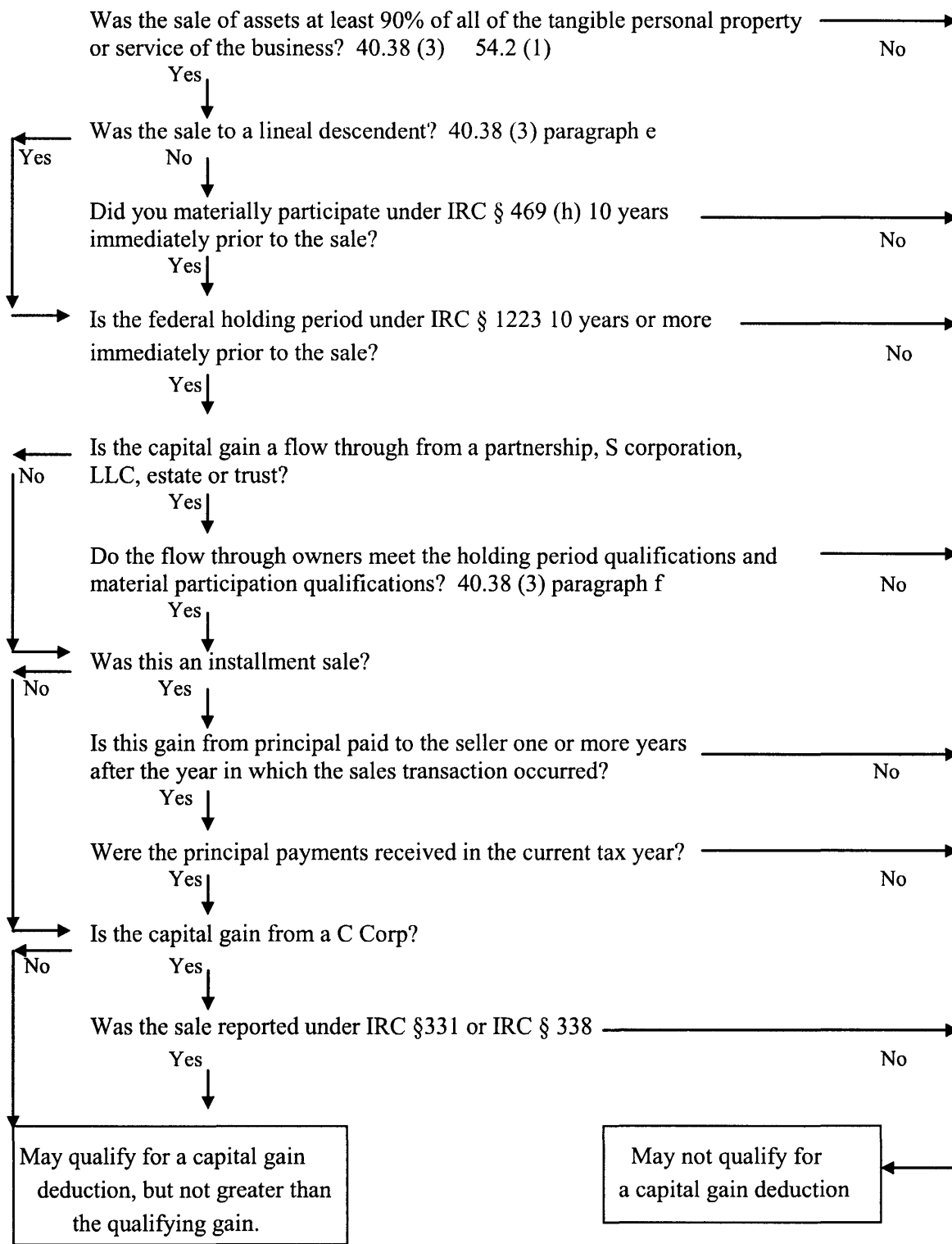
**701 IAC 40.38**

**IRC**



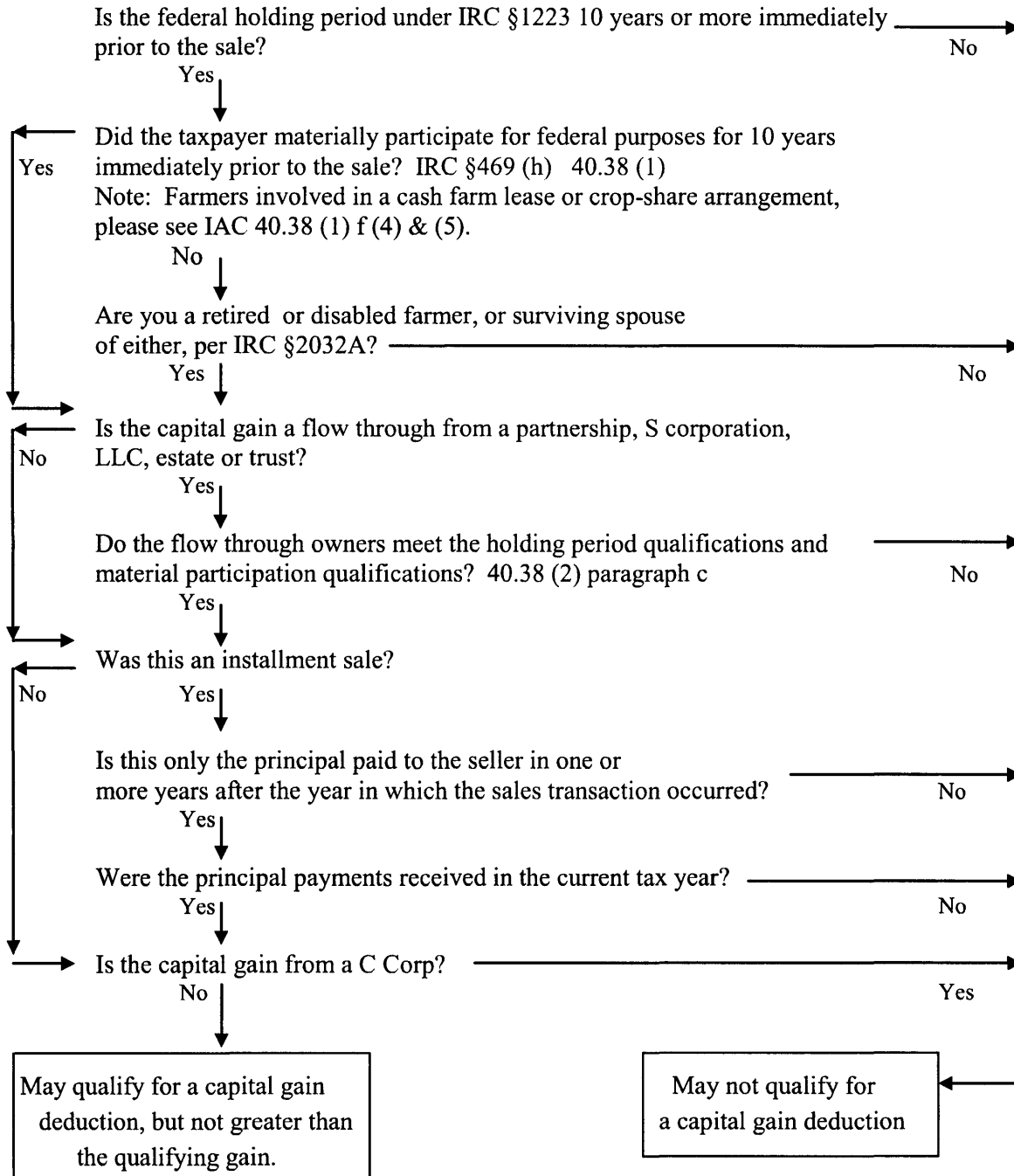
## ———— SALE of BUSINESS ASSETS ————

**701 IAC 40.38      701 IAC 54.2      IRC**



**REAL PROPERTY used in a FARMING BUSINESS**

**701 IAC 40.38    IRC**



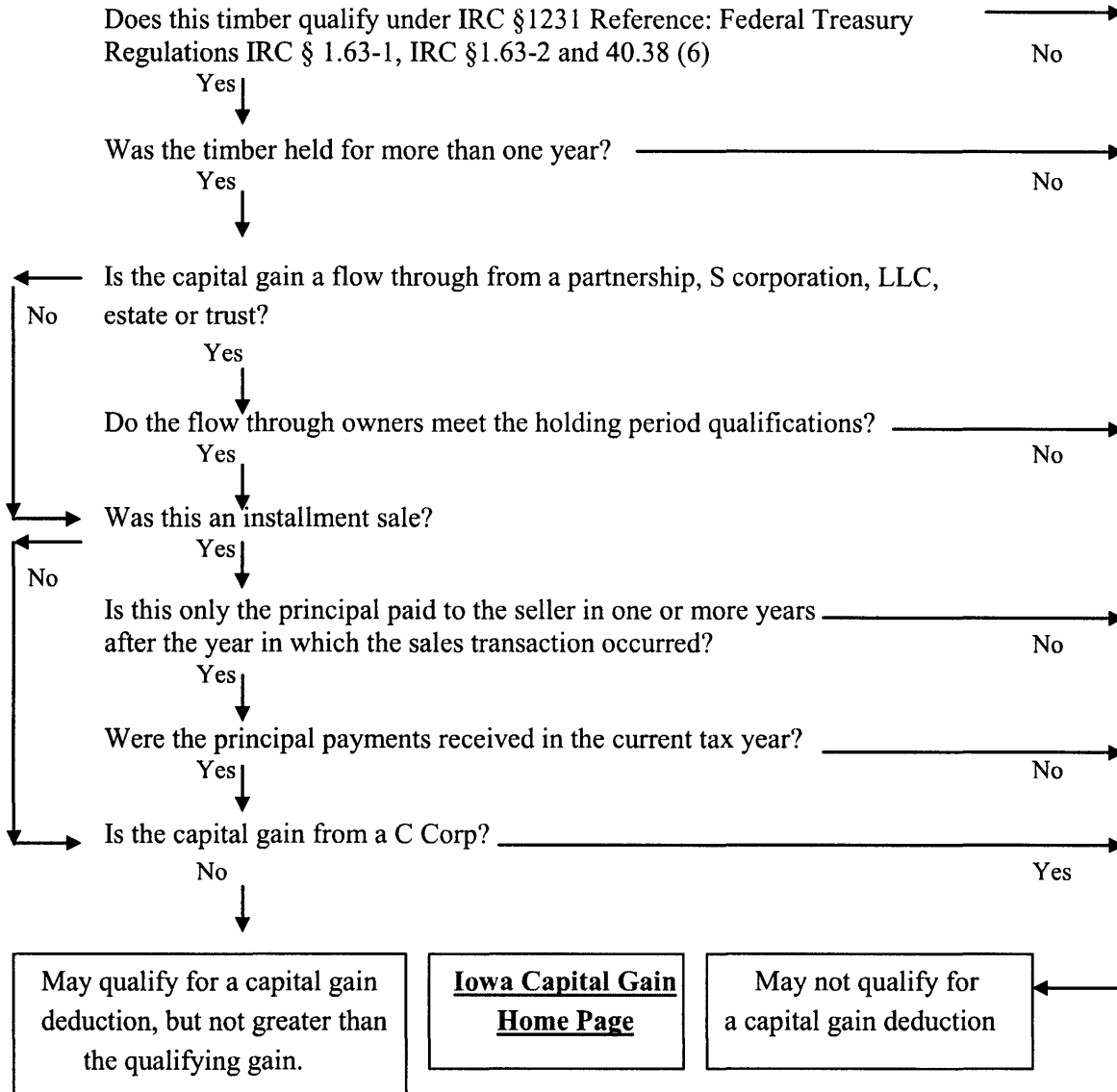


# TIMBER

(NOTE: Material participation not required to qualify for these types of sales)

## 701 IAC 40.38

## IRC



## Before You Complete the Applicable Iowa Capital Gain Deduction Form

The Iowa capital gain deduction is subject to review by the Iowa Department of Revenue. The Department will use this form to verify that the taxpayer(s) qualifies for the deduction. The Department may request additional information if needed.

This completed form must be included with the IA 1040 to support the Iowa capital gain deduction claimed.

Complete a separate IA 100B-100F for each distinct property sale, although multiple livestock sales can, in some instances, be reported on one IA 100A (see IA 100A instructions). You must complete the applicable form each year of a qualifying installment sale. You must complete the applicable form even if the gain was passed-through to you.

The sale of assets by a C corporation does not qualify for the Iowa capital gain deduction. However, the gain from a corporate liquidation under Internal Revenue Code (IRC) section 331 may qualify for the Iowa capital gain deduction.

For taxpayers filing separately on the same return, each spouse must complete the appropriate IA 100 for the Iowa capital gain deduction claimed based on the spouse's ownership share in the property.

For tax year 2016, each Iowa capital gain deduction must be reported on one of six forms:

- To claim a deduction for capital gains from the qualifying sale of **Cattle, Horses, or Breeding Livestock, complete the IA 100A.**
- To claim a deduction for capital gains from the qualifying sale of **Real Property Used in a Farm Business, complete the IA 100B.**
- To claim a deduction for capital gains from the qualifying sale of **Real Property Used in a Non-Farm Business, complete the IA 100C.**
- To claim a deduction for capital gains from the qualifying sale of **Timber, complete the IA 100D.**
- To claim a deduction for capital gains from the qualifying sale of a **Business, complete the IA 100E.**
- To claim a deduction for capital gains from the qualifying sale of **Employer Securities to a Qualified Iowa Employee Stock Ownership Plan, complete the IA 100F.**

Flowcharts to assist in determining if a capital gain qualifies are also available in the expanded instructions [online](#). For more information on the Iowa capital gain deduction, see the instructions for the respective form and [701 IAC 40.38](#).

Name(s) \_\_\_\_\_ SSN \_\_\_\_\_

**Part I: Sale of Cattle, Horses, or Breeding Livestock**

- 1. Was the gain from the sale of livestock reported under IRC section 1231?  
 No  ..... Sale is not eligible for Iowa capital gain deduction. Stop.  
 Yes  .... Continue to line 2.

2. Report information on each livestock sale (see instructions)

Type of Livestock (for example Cattle, Horse, Swine)	Livestock Use (Breeding, Dairy, Draft, or Sporting)	Documented Sale Date	Meet Minimum Holding Period?	Purchaser Name if Lineal Descendent	Purchaser Relation if Lineal Descendent

- 3. Were all sales reported on line 2 to a lineal descendent?  
 No  ..... Continue to Part I, line 4.  
 Yes  .... Continue to Part II, line 1.
- 4. Enter taxpayer's gross income from farming and ranching operations (see instructions)..... 4. \$ \_\_\_\_\_
- 5. Enter taxpayer's gross income (see instructions)..... 5. \$ \_\_\_\_\_
- 6. Share of gross income from farming or ranching. Divide line 4 by line 5. Enter percentage to three decimal places (for example 75.8%) ..... 6. \_\_\_\_\_ %

7. Is line 6 greater than 50.0%?

No  ..... Stop. Sales to anyone other than a lineal descendent are not eligible for Iowa capital gain deduction. Remove sales to anyone other than a lineal descendent from Part I, line 2 and return to Part I, line 3.

Yes  .... Continue to Part II, line 1.

**Part II: Details of Property Sold**

1. Was the property sold owned by a C corporation?

No  ..... Continue to Part II, line 2.

Yes  .... Sale is not eligible for Iowa capital gain deduction. Stop.

2. List all other owner name(s) or the pass-through entity name (if applicable) \_\_\_\_\_

\_\_\_\_\_

3. Enter taxpayer's ownership share of the total property sold to three decimal places (for example 65.2%) ..... 3. \_\_\_\_\_ %

4. Is the capital gain from an installment sale?

No  ... Continue to Part II, line 5.

Yes  . Enter the property installment sale information:

a. Start date..... 4a. \_\_\_\_\_

b. End date..... 4b. \_\_\_\_\_

c. Total gain received by the taxpayer.... 4c. \_\_\_\_\_

d. Capital gain received by the taxpayer in tax year 2016..... 4d. \$ \_\_\_\_\_

5. Iowa capital gain deduction. Enter the amount of the taxpayer's capital gain deduction claimed for this property and include on IA 1040 line 23 ..... 5. \$ \_\_\_\_\_

## Instructions for 2016 IA 100A – Iowa Capital Gain Deduction for Sales of Cattle, Horses, or Breeding Livestock

The Iowa capital gain deduction is subject to review by the Iowa Department of Revenue. The Department will use this form to verify that the taxpayer(s) qualifies for the deduction. The Department may request additional information if needed.

This completed form must be included with the IA 1040 to support the Iowa capital gain deduction claimed for livestock sales. Multiple livestock sales can be reported on one IA 100A as long as the property details are the same across all sales. If property details reported in Part II differ across sales, complete a separate IA 100A. Complete the form each year of a qualifying installment sale, including all parts.

For taxpayers filing separately on the same return, each spouse must complete an IA 100A for the Iowa capital gain deduction claimed based on the spouse's ownership share in the property.

Flowcharts to assist in determining if a gain qualifies are also available in the expanded instructions online. For more information on the Iowa capital gain deduction, see the instructions below and 701 IAC 40.38.

### Part I: Sale of Cattle, Horses, or Breeding Livestock

**Line 1.** Check the box to indicate whether the taxpayer reported the capital gain under Internal Revenue Code (IRC) section 1231.

**Line 2.** Complete the table as instructed below. Enter each animal sold on a separate line; however, if multiple animals have identical information in each column of the table, the animals may be combined on one line by entering the number and type of livestock sold in the first column (for example, "3 Bulls," "10 Swine"). Include a separate statement if more lines are needed:

**Type of livestock:** Enter the type of livestock sold as "Cattle," "Horses," or specify the type of breeding livestock sold. Breeding livestock may include swine, donkeys, sheep, goats, fur-bearing mammals, and other mammals. Breeding livestock does not include poultry, chickens, turkeys, pigeons, geese, other

birds, fish, frogs, or reptiles, and sales of these animals do not qualify for the Iowa capital gain deduction.

**Livestock use:** Enter whether the taxpayer used the livestock sold for "Breeding," "Dairy," "Draft," or "Sporting" purposes. Livestock other than cattle and horses must be used for breeding purposes to qualify for the Iowa capital gain deduction.

**Documented sale date:** Enter the sale date for the livestock sold, as indicated in supporting documentation and as reported on the taxpayer's federal return.

**Meet minimum holding period?:** Enter "Yes" or "No" to indicate whether the livestock sold meet the minimum holding period. Cattle and horses must be held for at least 24 months. Other breeding livestock must be held for at least 12 months. Cattle, horses, and other breeding livestock that do not meet the minimum holding period do not qualify for the Iowa capital gain deduction.

**Name of purchaser, if lineal descendant:** If the purchaser of the livestock is a lineal descendent of the taxpayer, enter the name of the purchaser. If the purchaser of the livestock is not a lineal descendent of the taxpayer, leave the field blank. Lineal descendent is defined as a child of the taxpayer including a biological child, a legally adopted child, a stepchild, grandchild, and great-grandchild.

**Relation of purchaser, if lineal descendant:** If the purchaser of the livestock is a lineal descendent of the taxpayer, enter the purchaser's relation to the taxpayer (for example, "Child," "Grandchild"). If the purchaser of the livestock is not a lineal descendent of the taxpayer, leave the field blank.

**Line 4.** Enter the taxpayer's gross income from farming or ranching operations in tax year 2016. If married filing jointly, income from both spouses must be included. Farming and ranching gross income is typically reported on federal Schedule F line 9 or 50, federal Form 4835 line 7, or as partnership income from farming. If farm income was reported on

another location on the federal return, enter that income before any expenses are deducted.

**Line 5.** Enter the taxpayer's gross income from IA 1040 line 15, with modifications to reflect income before the deduction of expenses. Common examples include: gross farm income on IA 100A Part I, line 4 rather than net farm income reported on IA 1040 line 11; and gross income on federal Schedule C line 7 rather than business income reported on IA 1040 line 5. If married filing jointly, income from both spouses must be included.

**Line 6.** Calculate the proportion of the taxpayer's gross income from farming or ranching operations by dividing Part I, line 4 by Part I, line 5. Round the number to three decimal places, and enter the number as a percent (for example: 100.0%; 65.2%)

**Line 7.** If married filing separately, each spouse claiming the capital gain deduction must separately meet and demonstrate the individual's gross income from farming or ranching operations exceeds 50.0% by completing a separate IA 100A.

## Part II: Details of Property Sold

**Line 1.** Check the box to indicate whether the taxpayer's capital gain resulted from the sale of livestock by a C corporation. The sale of assets by a C corporation does not qualify for the Iowa capital gain deduction. Note: The gain from a corporate liquidation under IRC section 331 may qualify for the Iowa capital gain deduction. If the gain is realized under IRC section 331, check "No" and continue to Part II, line 2.

**Line 2.** Enter the names of all persons and entities that owned the livestock at the time of sale. Alternatively, if the capital gain flowed through to the taxpayer from a partnership, S corporation, limited liability company (LLC), estate, or trust, only that entity may be reported here instead of all other co-owners.

**Line 3.** Enter the taxpayer's ownership share of the property sold at the time of the sale as a percentage to three decimal places (for example: 100.0%; 50.0%; 33.3%). The taxpayer's ownership share must be greater than zero.

**Line 4.** Check the box to indicate whether the capital gain comes from an installment sale. If "Yes," enter the date of the first installment, the expected date of the final installment, the total capital gain generated by the sale, and the capital gain the taxpayer received during this tax year. Do not include any interest received.

**Line 5.** Enter the amount of the taxpayer's capital gain deduction claimed for the sale of cattle, horse, or breeding livestock reported on this IA 100A. The eligibility of the Iowa capital gain deduction reported is subject to further examination by the Department.

## Questions?

Department website: <https://tax.iowa.gov>  
515-281-3114 or 800-367-3388  
Email: [idr@iowa.gov](mailto:idr@iowa.gov)

Name(s) \_\_\_\_\_ SSN \_\_\_\_\_

**Part I: Sale of Real Property Used in a Farm Business**

1. Farmland address or legal description (include county) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Total number of acres sold \_\_\_\_\_

3. Ownership period  
a. Date acquired ..... 3a. \_\_\_\_\_  
b. Date sold..... 3b. \_\_\_\_\_

4. Length of holding period ..... Years 4a. \_\_\_\_\_ Months 4b. \_\_\_\_\_

5. If the taxpayer did not own the property for at least ten years, explain how the taxpayer held the property for at least ten years under IRC section 1223.  
\_\_\_\_\_  
\_\_\_\_\_

6. Is the taxpayer receiving Old-Age Social Security benefits?  
No  ..... Continue to Part I, line 8.  
Yes  ..... Continue to Part I, line 7.

7. Provide the date taxpayer started receiving Old-Age Social Security benefits ..7. \_\_\_\_\_

8. Is the taxpayer a disabled farmer?  
No  ..... Continue to Part I, line 10.  
Yes  ..... Continue to Part I, line 9.

9. Provide the date the taxpayer's disability began.....9. \_\_\_\_\_

10. Is the taxpayer the surviving spouse of a farmer?  
No  ..... Continue to Part I, line 14.  
Yes  ..... Continue to Part I, line 11

11. Provide the date of the spouse's death ..... 11. \_\_\_\_\_

12. Was the spouse receiving Old-Age Social Security benefits at the time of death?  
No  ..... Continue to Part I, line 14.  
Yes  ..... Continue to Part I, line 13.

13. Provide the date the spouse started receiving Old-Age Social Security benefits ..... 13. \_\_\_\_\_

14. Report the following for the 10 years prior to the sale, or if the taxpayer was receiving Old-Age Social Security benefits, report the following for the 8 years prior to the first year the benefits were received. See instructions if answered yes to Part I, lines 6, 8, or 10.

Calendar Year	Name of land manager	Paid? Yes or No	Federal form or schedule where taxpayer reported income	Acres the taxpayer personally farmed	Cash rent acres	Crop share acres	CRP acres	Other acres

15. Describe in detail the daily, weekly, monthly, and annual duties of the taxpayer associated with the acres sold during the period covered in line 14. Include the years the taxpayer performed each duty. If the taxpayer was married during this period, include duties performed by either spouse \_\_\_\_\_

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**Part II: Details of Property Sold**

- Was the property sold owned by a C corporation?  
 No  ..... Continue to Part II, line 2.  
 Yes  ..... Sale is not eligible for Iowa capital gain deduction. Stop.
- List all other owner name(s) \_\_\_\_\_  
 \_\_\_\_\_



3. Enter taxpayer's ownership share of the total property sold to three decimal places (for example 65.2%)..... 3. \_\_\_\_\_ %

4. How did the taxpayer acquire the property? (check all that apply)  
Inheritance  Like-kind (IRC 1031) Exchange   
Purchase  Involuntary Conversion   
Gift  Other  (Explain: \_\_\_\_\_)

5. Purchaser's name(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

6. Is the capital gain from an installment sale?  
No  ..... Continue to Part II, line 7.  
Yes  ..... Enter the property installment sale information:  
a. Start date ..... 6a. \_\_\_\_\_  
b. End date ..... 6b. \_\_\_\_\_  
c. Total gain received by the taxpayer..... 6c. \_\_\_\_\_  
d. Capital gain received by the taxpayer in tax year 2016 ..... 6d. \$ \_\_\_\_\_

7. Iowa capital gain deduction. If the taxpayer meets the holding period qualifications and material participation qualifications, enter the taxpayer's amount of capital gain deduction here and include on IA 1040 line 23..... 7. \$ \_\_\_\_\_

## Instructions for 2016 IA 100B – Iowa Capital Gain Deduction for Sales of Real Property Used in a Farm Business

The Iowa capital gain deduction is subject to review by the Iowa Department of Revenue. The Department will use this form to verify that the taxpayer(s) qualifies for the deduction. The Department may request additional information if needed.

This completed form must be included with the IA 1040 to support the Iowa capital gain deduction claimed for sales of real property used in a farm business. Complete a separate IA 100B for each sale of farmland. Complete the form each year of a qualifying installment sale, including all parts.

For taxpayers filing separately on the same return, each spouse must complete an IA 100B for the Iowa capital gain deduction claimed based on the spouse's ownership share in the property.

Flowcharts to assist in determining if a gain qualifies are also available in the expanded instructions online. For more information on the Iowa capital gain deduction, see the instructions below and 701 IAC 40.38.

### **Part I: Sale of Real Property Used in a Farm Business**

**Line 1.** Enter the address of the farmland, or enter the legal description of the farmland if no address is available.

**Line 2.** Enter the total number of acres of farmland sold.

**Line 3.** Enter the acquisition date and sale date for the farmland, as indicated in supporting documentation.

**Line 4.** Enter the length of the holding period in years and months.

**Line 5.** If the ownership period indicated in Part I, line 3 is less than ten years, explain why the ownership period differs from the holding period entered in Part I, line 4. The farmland must be held, as defined using IRC section 1223, for at least ten years to qualify for the Iowa capital gain deduction. For example, the farmland sold may have been acquired in a like-kind exchange or an involuntary conversion, and the holding period of the

farmland sold plus the previously-held property may be at least ten years.

**Line 14.** Complete the table for each of the ten years prior to the sale. However, the taxpayer may instead elect to complete the table for each of the eight years prior to the date entered in Part I, line 7, 9, 11, or 13.

Example 1: The taxpayer sold farmland on an installment basis on February 1, 2016. The taxpayer must complete the table for years 2006 to 2015, unless the taxpayer checked "Yes" on Part I, line 6, 8, or 10.

Example 2: The taxpayer checked Yes on Part I, line 6 and began receiving Old-Age (retirement) benefits under Social Security on February 8, 2012. The taxpayer may elect to complete the table for years 2004 to 2011 even if the taxpayer sold the farmland in 2016.

**Calendar year:** Enter one calendar year on each line.

**Name of land manager:** Enter the name(s) of the person(s) who managed the land in the year. Enter "Self" if the taxpayer managed the land.

**Paid?** Enter "Yes" or "No" to indicate whether the reported land manager received any compensation for managing the land in the year. If there were multiple land managers only enter "Yes" if any person other than the taxpayer was compensated.

**Federal form or schedule where taxpayer reported income:** Enter the federal form or schedule number or letter on which the taxpayer reported income from the land in the respective calendar year. Income from farmland is typically reported on federal Schedule E, Schedule F, or Form 4835.

**Acres the taxpayer personally farmed:** Enter the number of acres of the farmland sold that the taxpayer personally farmed in the respective calendar year. If the taxpayer was married during the calendar year, include the acres of the farmland sold that were personally farmed by either spouse.

**Cash rent acres:** Enter the number of acres of the farmland sold that the taxpayer leased for cash rent in the respective calendar year. If the taxpayer was married during the calendar year, include the acres of the farmland sold that were leased for cash rent by either spouse.

**Crop share acres:** Enter the number of acres of the farmland sold that the taxpayer had under a crop share lease arrangement in the respective calendar year. If the taxpayer was married during the calendar year, include the acres of the farmland sold that were under a crop share lease agreement by either spouse.

**CRP acres:** Enter the number of acres of the farmland sold that the taxpayer had enrolled in the Conservation Reserve Program (CRP) in the respective calendar year. If the taxpayer was married during the calendar year, include the acres of the farmland enrolled in CRP by either spouse.

**Other acres:** Enter the number of acres of the farmland sold that the taxpayer used for other purposes in the respective calendar year, such as non-tillable acres. If the taxpayer was married during the calendar year, include the acres of the farmland sold that were used for other purposes by either spouse.

Note: The sum of the acres the taxpayer personally farmed, the cash rent acres, the crop share acres, the CRP acres, and the other acres must equal the total number of acres sold as entered in Part I, line 2.

**Line 15.** Enter the taxpayer's daily, weekly, monthly, and yearly farming activities on the farmland sold during the period identified in Part I, line 14. Describe the activities in detail, and include the year(s) the taxpayer performed the activities. Do not include activities performed by any person other than the taxpayer, such as tenants and farm hands. The taxpayer's activities must be supported by records. Records prepared long after the activity generally are not acceptable.

## Part II: Details of Property Sold

**Line 1.** Check the box to indicate whether the taxpayer's capital gain resulted from the sale of property by a C corporation. The sale of assets by a C corporation does not qualify for the Iowa capital gain deduction. Note: The gain from a

corporate liquidation under Internal Revenue Code (IRC) section 331 may qualify for the Iowa capital gain deduction. If the gain is realized under IRC section 331, check "No" and continue to Part II, line 2.

**Line 2.** Enter the names of all persons and entities that owned the property at the time of sale. If the capital gain flowed through to the taxpayer from a partnership, S corporation, limited liability company (LLC), estate, or trust, all owners of the entity must be reported.

**Line 3.** Enter the taxpayer's ownership share of the property sold at the time of the sale as a percentage to three decimal places (for example: 100.0%; 50.0%; 33.3%). The taxpayer's ownership share must be greater than zero.

**Line 4.** Check all boxes that indicate how the taxpayer acquired the property. If "Other", explain how the taxpayer acquired the property.

**Line 5.** Enter the names of all persons and entities that purchased the property.

**Line 6.** Check the box to indicate whether the capital gain comes from an installment sale. If "Yes," enter the date of the first installment, the expected date of the final installment, the total capital gain generated by the sale, and the capital gain the taxpayer received during tax year 2016. Do not include any interest received.

**Line 7.** Enter the amount of the taxpayer's capital gain deduction claimed. The eligibility of the Iowa capital gain deduction reported here is subject to further examination by the Department.

### Questions?

Department website: <https://tax.iowa.gov>  
515-281-3114 or 800-367-3388  
Email: [idr@iowa.gov](mailto:idr@iowa.gov)

Name(s) \_\_\_\_\_ SSN \_\_\_\_\_

**Part I: Sale of Real Property Used in a Non-Farm Business**

1. Business name \_\_\_\_\_
2. Activity of the business \_\_\_\_\_  
\_\_\_\_\_
3. Check the business organization type (check only one)  
Partnership  S Corporation   
Sole Proprietorship  C Corporation   
LLC  Other  (Explain: \_\_\_\_\_)
4. Real property address or legal description \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. Ownership period  
a. Date acquired ..... 5a. \_\_\_\_\_  
b. Date sold..... 5b. \_\_\_\_\_
6. Length of holding period ..... Years 6a. \_\_\_\_\_ Months 6b. \_\_\_\_\_
7. If the taxpayer did not own the property for at least ten years, explain how the taxpayer held the property for at least ten years under IRC section 1223.  
\_\_\_\_\_  
\_\_\_\_\_

**Part II: Details of Property Sold**

1. Was the property sold owned by a C corporation?  
No  ..... Continue to Part II, line 2.  
Yes  .... Sale is not eligible for Iowa capital gain deduction. Stop.
2. List all owner name(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. Enter taxpayer's ownership share of the total property sold to three decimal places (for example 65.2%) ..... 3. \_\_\_\_\_ %
4. How did the taxpayer acquire the property? (check all that apply)  
Inheritance  Like-kind (IRC 1031) Exchange   
Purchase  Involuntary Conversion   
Gift  Other  (Explain: \_\_\_\_\_)

5. Purchaser's name(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

6. Is the capital gain from an installment sale?  
No  ..... Continue to Part III, line 1.  
Yes  .... Enter the property installment sale information:  
a. Start date..... 6a. \_\_\_\_\_  
b. End date..... 6b. \_\_\_\_\_  
c. Total gain received by the taxpayer.... 6c. \_\_\_\_\_  
d. Capital gain received by the taxpayer in tax year 2016..... 6d. \$ \_\_\_\_\_

**Part III: Material Participation in a Business**

1. Describe in detail the business use of this property \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Check the box for each applicable material participation test for which the taxpayer has documentation. Check all that apply.
- 2a. Test 1: Taxpayer participated in the business for more than 500 hours in the year.....
  - 2b. Test 2: Taxpayer's participation in the business constituted substantially all participation in the business in the year. ....
  - 2c. Test 3: Taxpayer participated in the business more than 100 hours in the year, and no other person participated in the business more.....
  - 2d. Test 4: Taxpayer participated in the business that sold the property and at least one other business in the year if, for each year claimed:
    - All such businesses are not rental businesses; and
    - Taxpayer participated in all such businesses more than 500 hours total; and
    - Taxpayer participated more than 100 hours in each such business; and
    - Taxpayer's participation in each such business does not satisfy any other test. ....
  - 2e. Test 5: Taxpayer materially participated in the business for five of the ten years immediately prior to the year claimed. ....
  - 2f. Test 6: Taxpayer materially participated in a personal service activity for at least three years (may be outside the ten years prior to the sale). ....
  - 2g. Test 7: Taxpayer participated in the business more than 100 hours in the year and, based on all facts and circumstances, the participation was regular, continuous, and substantial.....

3. Describe in detail the daily, weekly, monthly, and annual duties of the taxpayer in the business associated with this property during the 10 years immediately prior to the sale. Include the years the taxpayer performed each duty. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Iowa capital gain deduction. If the taxpayer meets the holding period qualifications and material participation qualifications, enter the taxpayer's amount of capital gain deduction here and include on IA 1040 line 23. .... 4. \$ \_\_\_\_\_

## **Instructions for 2016 IA 100C – Iowa Capital Gain Deduction for the Sale of Real Property Used in a Non-Farm Business**

The Iowa capital gain deduction is subject to review by the Iowa Department of Revenue. The Department will use this form to verify that the taxpayer(s) qualifies for the deduction. The Department may request additional information if needed.

This completed form must be included with the IA 1040 to support the Iowa capital gain deduction claimed for the sale of real property used in a non-farm business. Complete a separate IA 100C for each distinct property sale. Complete the form each year of a qualifying installment sale, including all parts.

For taxpayers filing separately on the same return, each spouse must complete an IA 100C for the Iowa capital gain deduction claimed based on the spouse's ownership share in the property.

Flowcharts to assist in determining if a gain qualifies are also available in the expanded instructions online. For more information on the Iowa capital gain deduction, see the instructions below and 701 IAC 40.38.

### **Part I: Sale of Real Property Used in a Non-Farm Business**

**Line 1.** Enter the name(s) of the business that used the real property sold. Include all legal names and trade names used. If the business was a sole proprietorship with no separate legal or trade name, enter the taxpayer's name. Note: Do not enter the name(s) of any lessee business that paid rent for the real property; instead, enter the name(s) of the lessor business that received rent payments.

**Line 2.** Enter the primary activities of the business identified in Part I, line 1. Do not include the activities of any lessee businesses that rented the real property.

**Line 3.** Check the box to indicate how the business identified in Part I, line 1 was organized on the date of the sale. If "Other," explain how the business was organized.

**Line 4.** Enter the address of the real property sold, or enter the legal description of the real property if no address is available.

**Line 5.** Enter the acquisition date and sale date for the real property sold, as indicated in supporting documentation.

**Line 6.** Enter the length of the holding period in years and months.

**Line 7.** If the ownership period indicated in Part I, line 5 is less than ten years, explain why the ownership period differs from the holding period entered in Part I, line 6. Real property used in a non-farm business must be held, as defined using Internal Revenue Code (IRC) section 1223, for at least ten years to qualify for the Iowa capital gain deduction. For example, the real property sold may have been acquired in a like-kind exchange or an involuntary conversion, and the holding period of the real property sold plus the previously-held property may be at least ten years.

### **Part II: Details of Property Sold**

**Line 1.** Check the box to indicate whether the taxpayer's capital gain resulted from the sale of property by a C corporation. The sale of assets by a C corporation does not qualify for the Iowa capital gain deduction. Note: The gain from a corporate liquidation under IRC section 331 may qualify for the Iowa capital gain deduction. If the gain is realized under IRC section 331, check "No" and continue to Part II, line 2.

**Line 2.** Enter the names of all persons and entities that owned the property at the time of sale. If the capital gain flowed through to the taxpayer from a partnership, S corporation, limited liability company (LLC), estate, or trust, all owners of the entity must be reported.

**Line 3.** Enter the taxpayer's ownership share of the property sold at the time of the sale as a percentage to three decimal places (for example: 100.0%; 50.0%; 33.3%). The taxpayer's ownership share must be greater than zero.

**Line 4.** Check all boxes that indicate how the taxpayer acquired the property. If "Other," explain how the taxpayer acquired the property.

**Line 5.** Enter the names of all persons and entities that purchased the property.

**Line 6.** Check the box to indicate whether the capital gain comes from an installment sale. If “Yes,” enter the date of the first installment, the expected date of the final installment, the total capital gain generated by the sale, and the capital gain the taxpayer received during tax year 2016. Do not include any interest received.

### **Part III: Material Participation in a Business**

**Line 1.** Describe in detail how the business identified in Part I, line 1 used the real property sold.

**Lines 2a-2g.** The taxpayer must satisfy at least one of these seven tests for material participation for each of the ten years prior to the sale; however, the taxpayer may instead satisfy Test 6 for at least three years. Check the box for each test claimed. More than one test may be claimed. For more information on the tests for material participation, see the instructions below and 701 IAC 40.38(1)“e”.

**Tests 2 and 3:** If claiming either of these tests, the taxpayer must consider the activities of all persons who participated in the business, including employees of the business and non-employees who helped maintain the property or otherwise participated in the business.

**Test 4:** If claiming this test, include a separate statement explaining the taxpayer’s activities and hours of participation in all businesses claimed. Note: The taxpayer must participate in each such business more than 100 hours but no more than 500 hours for each year claimed.

**Test 5:** If claiming this test, the taxpayer must be able to show that, for each year claimed, the taxpayer materially participated under any of Tests 1 to 4 for five of the ten years prior to the year claimed. If claiming this test, the taxpayer must also report having satisfied at least one of Tests 1 to 4.

**Test 6:** If claiming this test, enter at least three years in Part III, line 3. These three years may be before the ten years prior to the sale. A personal service activity involves the performance of personal services in the fields of health, law, engineering, actuarial science, architecture, accounting, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.

**Test 7:** If claiming this test, include a separate statement explaining how, based on all facts and circumstances, the taxpayer materially participated in the business each year.

**Line 3.** Enter the taxpayer’s daily, weekly, monthly, and yearly activities in the business identified in Part I, line 1 during the ten years prior to the sale (if Test 6 is claimed in Part III, line 2, enter the activities for the relevant three-year period). The activities must verify the taxpayer satisfies the test(s) claimed in Part III, line 2. Describe the activities in detail, and include the year(s) the taxpayer performed the activities. Do not include activities performed by any person other than the taxpayer, such as tenants and employees. The taxpayer’s activities must be supported by records. Records prepared long after the activity generally cannot establish material participation.

**Line 4.** Enter the amount of the taxpayer’s capital gain deduction claimed. The eligibility of the Iowa capital gain deduction reported here is subject to further examination by the Department.

### **Questions?**

Department website: <https://tax.iowa.gov>  
515-281-3114 or 800-367-3388  
Email: [idr@iowa.gov](mailto:idr@iowa.gov)



Name(s) \_\_\_\_\_ SSN \_\_\_\_\_

**Part I: Sale of Timber**

- 1. Timber address \_\_\_\_\_
- 2. Ownership period
  - a. Date acquired ..... 2a. \_\_\_\_\_
  - b. Date sold..... 2b. \_\_\_\_\_
- 3. Length of holding period. .... Years 3a. \_\_\_\_\_ Months 3b. \_\_\_\_\_
- 4. Explain how the purchaser intends to use the timber \_\_\_\_\_  
\_\_\_\_\_
- 5. Was the gain from the sale of timber reported under IRC section 1231?  
No ..... Sale is not eligible for Iowa capital gain deduction. Stop.  
Yes  .... Continue to Part II, line 1.

**Part II: Details of Property Sold**

- 1. Was the property sold owned by a C corporation?  
No ..... Continue to Part II, line 2.  
Yes  .... Sale is not eligible for Iowa capital gain deduction. Stop.
- 2. List all other owner name(s) or the pass-through entity name (if applicable) \_\_\_\_\_  
\_\_\_\_\_
- 3. Enter taxpayer's ownership share of the total property sold to three decimal places (for example 65.2%) ..... 3. \_\_\_\_\_ %
- 4. How did the taxpayer acquire the property? (check all that apply)  
Inheritance  Like-kind (IRC 1031) Exchange   
Purchase  Involuntary Conversion   
Gift  Other  (Explain: \_\_\_\_\_)  
Raised
- 5. Purchaser's name(s) \_\_\_\_\_  
\_\_\_\_\_
- 6. Is the capital gain from an installment sale?  
No ..... Continue to Part II, line 7.  
Yes  .... Enter the property installment sale information:
  - a. Start date..... 6a. \_\_\_\_\_
  - b. End date..... 6b. \_\_\_\_\_
  - c. Total gain received by the taxpayer.... 6c. \_\_\_\_\_
  - d. Capital gain received by the taxpayer in tax year 2016.....6d. \$ \_\_\_\_\_
- 7. Iowa capital gain deduction. Enter the amount of the taxpayer's capital gain deduction claimed for this property and include on IA 1040 line 23. .... 7. \$ \_\_\_\_\_

## Instructions for 2016 IA 100D – Iowa Capital Gain Deduction Sale of Timber

The Iowa capital gain deduction is subject to review by the Iowa Department of Revenue. The Department will use this form to verify that the taxpayer(s) qualifies for the deduction. The Department may request additional information if needed.

This completed form must be included with the IA 1040 to support the Iowa capital gain deduction claimed. Complete a separate IA 100D for each sale of timber. Complete the form each year of a qualifying installment sale, including all parts.

For taxpayers filing separately on the same return, each spouse must complete an IA 100D for the Iowa capital gain deduction claimed based on the spouse's ownership share in the property.

Flowcharts to assist in determining if a gain qualifies are also available in the expanded instructions online. For more information on the Iowa capital gain deduction, see the instructions below and 701 IAC 40.38.

### Part I: Sale of Timber

**Line 1.** Enter the address or legal description from where the timber was harvested. Also provide county and state.

**Line 2.** Enter the acquisition date and sale date for the timber, as indicated in supporting documentation.

**Line 3.** Enter the length of the holding period in years and months. The holding period must be at least 12 months to qualify for the Iowa capital gain deduction. If the ownership period indicated in Part I, line 2 is less than 12 months, include a separate statement explaining why the ownership period differs from the holding period.

**Line 4.** Explain how the purchaser intends to use the timber (for example: "Lumber", "Christmas Trees"). For more information see 701 IAC 40.38(6).

**Line 5.** Check the box to indicate whether the taxpayer reported the capital gain under IRC section 1231.

### Part II: Details of Property Sold

**Line 1.** Check the box to indicate whether the taxpayer's capital gain resulted from the sale of timber by a C corporation. The sale of assets by a C corporation does not qualify for the Iowa capital gain deduction. Note: The gain from a corporate liquidation under Internal Revenue Code (IRC) section 331 may qualify for the Iowa capital gain deduction. If the gain is realized under IRC section 331, check "No" and continue to Part II, line 2.

**Line 2.** Enter the names of all persons and entities that owned the timber at the time of sale. Alternatively, if the capital gain flowed through to the taxpayer from a partnership, S corporation, limited liability company (LLC), estate, or trust, only that entity may be reported here instead of all other co-owners.

**Line 3.** Enter the taxpayer's ownership share of the timber sold at the time of the sale as a percentage to three decimal places (for example: 100.0%; 50.0%; 33.3%). The taxpayer's ownership share must be greater than zero.

**Line 4.** Check all boxes that indicate how the taxpayer acquired the timber. If "Other", explain how the taxpayer acquired the timber.

**Line 5.** Enter the names of all persons and entities that purchased the timber.

**Line 6.** Check the box to indicate whether the capital gain comes from an installment sale. If "Yes," enter the date of the first installment, the expected date of the final installment, the total capital gain generated by the sale, and the capital gain the taxpayer received during tax year 2016. Do not include any interest received.

**Line 7.** Enter the amount of the taxpayer's capital gain deduction claimed. The eligibility of the Iowa capital gain deduction reported here is subject to further examination by the Department.

### Questions?

Department website (<https://tax.iowa.gov>)  
515-281-3114 or 800-367-3388  
Email: [idr@iowa.gov](mailto:idr@iowa.gov)

Name(s) \_\_\_\_\_ SSN \_\_\_\_\_

**Part I: Sale of a Business**

1. Business name \_\_\_\_\_
2. Business address \_\_\_\_\_
3. Activity of the business \_\_\_\_\_  
\_\_\_\_\_
4. Check the business organization type (check only one)  
Partnership  S Corporation   
Sole Proprietorship  C Corporation   
LLC  Other  (Explain \_\_\_\_\_)
5. Is the capital gain from the sale of capital stock or an ownership interest in the business?  
No  ..... Continue to Part I, line 7.  
Yes  .... Continue to Part I, line 6.
6. Was the sale treated as a sale or acquisition of assets for federal income tax purposes?  
No  ..... Sale is not eligible for Iowa capital gain deduction. Stop.  
Yes  .... Continue to Part I, line 7.
7. Ownership period  
a. Date acquired ..... 7a. \_\_\_\_\_  
b. Date sold ..... 7b. \_\_\_\_\_
8. Length of holding period ..... Years 8a. \_\_\_\_\_ Months 8b. \_\_\_\_\_
9. If the taxpayer did not own the business for at least ten years, explain how the taxpayer held the business for at least ten years under IRC section 1223.  
\_\_\_\_\_  
\_\_\_\_\_
10. Description of all the tangible personal property and service of the business (including intangible assets) sold \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
11. Fair market value of the tangible personal property and service of the business sold (including intangible assets) ..... 11. \$ \_\_\_\_\_
12. Total fair market value of all the tangible personal property and service of the business (including intangible assets) ..... 12. \$ \_\_\_\_\_
13. Share of the business sold. Divide Part I, line 11 by Part I, line 12 and enter percentage to three decimal places (for example 92.4%) ..... 13. \_\_\_\_\_ %
14. Is Part I, line 13 at least 90.0%?  
No  ..... Sale is not eligible for Iowa capital gain deduction. Stop.  
Yes  .... Continue to Part II, line 1.

**Part II: Details of Property Sold**

1. Was the property sold owned by a C corporation?  
 No  ..... Continue to Part II, line 2.  
 Yes  .... Sale is not eligible for Iowa capital gain deduction. Stop.
2. List all owner name(s) \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_
3. Enter taxpayer's ownership share of the total property sold to three decimal places (for example 65.2%) ..... 3. \_\_\_\_\_ %
4. How did the taxpayer acquire the property? (check all that apply)  
 Inheritance  Like-kind (IRC 1031) Exchange   
 Purchase  Involuntary Conversion   
 Gift  Other  (Explain: \_\_\_\_\_)  
 Founded
5. a. Purchaser's name(s) \_\_\_\_\_ b. Purchaser's relation to taxpayer (If unrelated enter None) \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_
6. Is the capital gain from an installment sale?  
 No  ... Continue to Part III, line 1.  
 Yes  . Enter the property installment sale information:  
 a. Start date..... 6a. \_\_\_\_\_  
 b. End date..... 6b. \_\_\_\_\_  
 c. Total gain received by the taxpayer.... 6c. \_\_\_\_\_  
 d. Capital gain received by the taxpayer in tax year 2016 ..... 6d. \$ \_\_\_\_\_

**Part III: Material Participation in a Business:**

1. Was this a sale of a business to a lineal descendent?  
 No  ..... Continue to Part III line 2.  
 Yes  .... Continue to Part III, line 4.
2. Check the box for each applicable material participation test for which the taxpayer has documentation. Check all that apply.
  - 2a. Test 1: Taxpayer participated in the business for more than 500 hours in the year. ....
  - 2b. Test 2: Taxpayer's participation in the business constituted substantially all participation in the business in the year. ....
  - 2c. Test 3: Taxpayer participated in the business more than 100 hours in the year, and no other person participated in the business more.....

- 2d. Test 4: Taxpayer participated in the business that sold the property and at least one other business in the year if, for each year claimed:
- All such businesses are not rental businesses; and
  - Taxpayer participated in all such businesses more than 500 hours total; and
  - Taxpayer participated more than 100 hours in each such business; and
  - Taxpayer's participation in each such business does not satisfy any other test. ....

2e. Test 5: Taxpayer materially participated in the business for five of the ten years immediately prior to the year claimed.....

2f. Test 6: Taxpayer materially participated in a personal service activity for at least three years (may be outside the ten years prior to the sale). ....

2g. Test 7: Taxpayer participated in the business more than 100 hours in the year and, based on all facts and circumstances, the participation was regular, continuous, and substantial.(see instructions) .....

3. Describe in detail the daily, weekly, monthly, and annual duties of the taxpayer in the business associated with this property during the 10 years immediately prior to the sale. Include the years the taxpayer performed each duty. If the taxpayer was married during this period, include duties performed by either spouse \_\_\_\_\_

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4. Iowa capital gain deduction. If the taxpayer meets the holding period qualifications and material participation qualifications, enter the taxpayer's amount of capital gain deduction here and include on IA 1040 line 23. .... 4. \$ \_\_\_\_\_

## Instructions for 2016 IA 100E – Iowa Capital Gain Deduction Sale of a Business

The Iowa capital gain deduction is subject to review by the Iowa Department of Revenue. The Department will use this form to verify that the taxpayer(s) qualifies for the deduction. The Department may request additional information if needed.

This completed form must be included with the IA 1040 to support the Iowa capital gain deduction claimed. Complete a separate IA 100E for each sale of a business. Complete the form each year of a qualifying installment sale, including all parts.

For taxpayers filing separately on the same return, each spouse must complete an IA 100E for the Iowa capital gain deduction claimed based on the spouse's ownership share in the property.

Flowcharts to assist in determining if a gain qualifies are also available in the expanded instructions online. For more information on the Iowa capital gain deduction, see the instructions below and 701 IAC 40.38.

### Part I: Sale of a Business

**Line 1.** Enter the name(s) of the business sold. Include all legal names and trade names used. If the business was a sole proprietorship with no separate legal or trade name, enter the taxpayer's name.

**Line 2.** Enter the location address of the business sold at the time of the sale. Do not enter a PO Box.

**Line 3.** Enter the primary activities of the business sold.

**Line 4.** Check the box to indicate how the business sold was organized on the date of the sale. If "Other," explain how the business was organized.

**Line 5.** Check the box to indicate whether the taxpayer received the capital gain from the sale of capital stock or an ownership interest in a business. Note: Most capital gains resulting from the sale of capital stock or an ownership interest in a business do not qualify for the Iowa capital gain deduction regardless of how the business is organized. If "Yes" is checked, complete Part I, line 6 to explain how the capital gain qualifies for the Iowa capital gain deduction.

**Line 6.** If "Yes" is checked for Part I, line 5, check the box to indicate whether the sale of the stock or ownership interest was treated as a sale or acquisition of assets for federal income tax purposes, such as a sale under Internal Revenue Code (IRC) section 331 (corporate liquidation) or IRC section 338 (stock purchase treated as an asset acquisition).

**Line 7.** Enter the acquisition date and sale date for the business, as indicated in supporting documentation. The acquisition date may be the date the business began.

**Line 8.** Enter the length of the holding period in years and months.

**Line 9.** If the ownership period indicated in Part I, line 7 is less than ten years, explain why the ownership period differs from the holding period entered in Part I, line 8. Real property used in a business must be held, as defined using IRC section 1223, for at least ten years to qualify for the Iowa capital gain deduction. For example, the business sold may have been acquired in a like-kind exchange or an involuntary conversion, and the holding period of the business sold plus the previously-held business may be at least ten years.

**Line 10.** Describe the business assets sold. If all assets were sold, "Entire business" is acceptable.

**Line 11.** Enter the fair market value of the tangible personal property and service of the business sold. Tangible personal property does not include real property. The service of the business means intangible assets used in the business, including goodwill; going concern value; information base; patent, copyright, formula, design, or similar item; client lists; and any franchise, trademark, or trade name. Include the fair market value of unsold tangible personal property and service of the business. Do not include the value of merchandise or inventory of the business unless the sale of the merchandise or inventory generated a capital gain. If the fair market value of the assets sold differs from the actual sale price of the assets sold, include a separate statement explaining the difference.

**Line 12.** Enter the total fair market value of all of the tangible personal property and service of the business including intangible assets.

**Line 13.** Calculate the share of the business sold by dividing Part I, line 11 by Part I, line 12. Round the number to three decimal places, and enter the number as a percent (for example: 100.0%; 95.2%).

**Line 14.** Check the box to indicate whether Part I, line 13 is at least 90.0%.

## Part II: Details of Property Sold

**Line 1.** Check the box to indicate whether the taxpayer's capital gain resulted from the sale of property by a C corporation. The sale of assets by a C corporation does not qualify for the Iowa capital gain deduction. Note: The gain from a corporate liquidation under IRC section 331 may qualify for the Iowa capital gain deduction. If the gain is realized under IRC section 331, check "No" and continue to Part II, line 2.

**Line 2.** Enter the names of all persons and entities that owned the property at the time of sale. If the capital gain flowed through to the taxpayer from a partnership, S corporation, limited liability company (LLC), estate, or trust, all owners of the entity must be reported.

**Line 3.** Enter the taxpayer's ownership share of the property sold at the time of the sale as a percentage to three decimal places (for example: 100.0%; 50.0%; 33.3%). The taxpayer's ownership share must be greater than zero.

**Line 4.** Check all boxes that indicate how the taxpayer acquired the property. If "Other", explain how the taxpayer acquired the property.

**Line 5.** Enter the names of all persons and entities that purchased the property.

**Line 6.** Check the box to indicate whether the capital gain comes from an installment sale. If "Yes," enter the date of the first installment, the expected date of the final installment, the total capital gain generated by the sale, and the capital gain the taxpayer received during tax year 2016. Do not include any interest received.

## Part III: Material Participation in a Business

**Line 1.** Check the box to indicate whether all purchasers reported in Part II, line 5 are lineal descendants of the taxpayer. Lineal descendants include legally adopted children, biological children, stepchildren, grandchildren, and great-grandchildren.

**Lines 2a-2g.** The taxpayer must satisfy at least one of these seven tests for material participation for each of the ten years prior to the sale; however the taxpayer may instead satisfy Test 6 for at least three years. Check the box for each test claimed. More than one test may be claimed. For more information on the tests for material participation, see the instructions below and 701 IAC 40.38(1)"e".

**Tests 2 and 3:** If claiming either of these tests, the taxpayer must consider the activities of all persons who participated in the business, including employees of the business and non-employees who helped maintain the property or otherwise participated in the business.

**Test 4:** If claiming this test, include a separate statement explaining the taxpayer's activities and hours of participation in all businesses claimed. Note: The taxpayer must participate in each such business more than 100 hours but no more than 500 hours for each year claimed.

**Test 5:** If claiming this test, the taxpayer must be able to show that, for each year claimed, the taxpayer materially participated under any of Tests 1 to 4 for five of the ten years prior to the year claimed. If claiming this test, the taxpayer must also report having satisfied at least one of Tests 1 to 4.

**Test 6:** If claiming this test, enter at least three years in Part III, line 3. These three years may be before the ten years prior to the sale. A personal service activity involves the performance of personal services in the fields of health, law, engineering, actuarial science, architecture, accounting, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.

**Test 7:** If claiming this test, include a separate statement explaining how, based on all facts and circumstances, the taxpayer materially participated in the business each year.

**Line 3.** Enter the taxpayer's daily, weekly, monthly, and yearly activities in the business identified in Part I, line 1 during the ten years prior to the sale (if Test 6 is claimed in Part III, line 2, enter the activities for the relevant three-year period). The activities must verify the taxpayer satisfies the test(s) claimed in Part III, line 2. Describe the activities in detail, and include the year(s) the taxpayer performed the activities. Do not include activities performed by any person other than the taxpayer, such as tenants and employees. The taxpayer's activities must be supported by records. Records prepared long after the activity generally cannot establish material participation.

**Line 4.** Enter the amount of the taxpayer's capital gain deduction claimed. The eligibility of the Iowa capital gain deduction reported here is subject to further examination by the Department.

**Questions?**

Department website: <https://tax.iowa.gov>  
515-281-3114 or 800-367-3388

Email: [idr@iowa.gov](mailto:idr@iowa.gov)



Name(s) \_\_\_\_\_ SSN \_\_\_\_\_

**Part I: Sale of Employer Securities to a Qualified Iowa Employee Stock Ownership Plan (ESOP)**

1. Name of Iowa corporation \_\_\_\_\_
2. Does the ESOP own at least 30% of all outstanding employer securities issued by the Iowa corporation?  
No  ..... Sale is not eligible for Iowa capital gain deduction. Stop.  
Yes  .... Continue to Part II, line 1.

**Part II: Details of Property Sold**

1. Was the property sold owned by a C corporation?  
No  ..... Continue to Part II, line 2.  
Yes  .... Sale is not eligible for Iowa capital gain deduction. Stop.
2. List all owner name(s) \_\_\_\_\_  
\_\_\_\_\_
3. Enter taxpayer's ownership share of the total property sold to three decimal places (for example 65.2%) ..... 3. \_\_\_\_\_ %
4. Purchaser's name(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. Is the capital gain from an installment sale?  
No  ..... Continue to Part II, line 6.  
Yes  .... Enter the property installment sale information:
  - a. Start date..... 5a. \_\_\_\_\_
  - b. End date..... 5b. \_\_\_\_\_
  - c. Total gain received by taxpayer ..... 5c. \_\_\_\_\_
  - d. Capital gain received by the taxpayer in tax year 2016.....5d. \$ \_\_\_\_\_
6. Enter the amount of taxpayer's capital gain received from this sale in tax year 2016 ..... 6. \$ \_\_\_\_\_
7. Iowa capital gain deduction. Multiply Part II, line 6 by 50% (0.5). Enter here and include on IA 1040 line 23 ..... 7. \$ \_\_\_\_\_

## **Instructions for 2016 IA 100F – Iowa Capital Gain Deduction Sale of Employer Securities to a Qualified Iowa ESOP**

The Iowa capital gain deduction is subject to review by the Iowa Department of Revenue. The Department will use this form to verify that the taxpayer(s) qualifies for the deduction. The Department may request additional information if needed.

This completed form must be included with the IA 1040 to support the Iowa capital gain deduction claimed. Complete a separate IA 100F for each sale to a qualified Iowa ESOP. Complete the form each year of a qualifying installment sale, including all parts.

For taxpayers filing separately on the same return, each spouse must complete an IA 100F for the Iowa capital gain deduction claimed based on the spouse's ownership share in the property.

Flowcharts to assist in determining if a gain qualifies are also available in the expanded instructions online. For more information on the Iowa capital gain deduction, see the instructions below and 701 IAC 40.38.

### **Part I: Sale of Employer Securities to a Qualified Iowa Employee Stock Ownership Plan (ESOP)**

**Line 1.** Enter the name of the Iowa corporation whose employer securities the taxpayer sold.

**Line 2.** Check the box to indicate whether, upon completion of the sale, the ESOP owned at least 30% of all outstanding employer securities issued by the Iowa corporation entered in Part I, line 1.

### **Part II: Details of Property Sold**

**Line 1.** Check the box to indicate whether the taxpayer's capital gain resulted from the sale of employer securities by a C corporation. The sale of assets by a C corporation does not qualify for the Iowa capital gain deduction. Note: The gain from a corporate liquidation under Internal Revenue Code (IRC) section 331 may qualify for the Iowa capital gain deduction. If the gain is realized under IRC section 331, check "No" and continue to Part II, line 2.

**Line 2.** Enter the names of all persons and entities that owned the employer securities at the time of sale.

**Line 3.** Enter the taxpayer's ownership share of the employer securities sold at the time of the sale as a percentage to three decimal places (for example: 100.0%; 50.0%; 33.3%). The taxpayer's ownership share must be greater than zero.

**Line 4.** Enter the names of all persons and entities that purchased the employer securities.

**Line 5.** Check the box to indicate whether the capital gain comes from an installment sale. If "Yes," enter the date of the first installment, the expected date of the final installment, the total capital gain generated by the sale, and the capital gain the taxpayer received during tax year 2016. Do not include any interest received.

**Line 7.** Enter the amount of the taxpayer's capital gain deduction claimed, 50% of line 6. The eligibility of the Iowa capital gain deduction reported here is subject to further examination by the Department.

### **Questions?**

Department website: <https://tax.iowa.gov>  
515-281-3114 or 800-367-3388  
Email: [idr@iowa.gov](mailto:idr@iowa.gov)