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**Tax Edition**  
**May 3, 2019**

# Iowa Legislative Update

April 2019

Archive

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### Iowa's 2019 Legislative Session Ends

#### [Iowa Hemp Act Would Pave Way for Future Hemp Production](#)

The Iowa Legislature has now sent SF 599, the Iowa Hemp Act, to the Governor. Passed by an overwhelming majority, the bill, once signed, would pave the way for future legal production of industrial hemp within the state. This passage, however, is just one in a series of hurdles that must be crossed before growers can legally plant and market industrial hemp within the State of Iowa.

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#### [Iowa Legislature Passes Bill to Regulate Tax Return Preparers](#)

On April 24, 2019, the Iowa Legislature passed HF 590, a bill to regulate tax return preparers. If the bill is signed by the Governor, the new requirements would take effect 01/01/2020. Beginning on or after this date, "tax return preparers" (TRPs) would be required to include their federal PTIN on any Iowa tax return or claim for refund they prepare. A \$50 penalty would apply to each violation unless the TRP can show that the violation was reasonable under the circumstances and not willful or reckless. The maximum penalty could not exceed \$25,000 for any calendar year. The TRPs would also be required to complete at least 15 hours of continuing education each year.

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#### [Bill Sent to Governor Will Enhance Iowa's Beginning Farmer Tax Credit Program](#)

Last week, the Iowa House and Senate passed HF 768, a bill to enhance Iowa's Beginning Farmer Tax Credit Program. Once signed by the Governor, the new law will strengthen a program that faced significant cuts in 2018. Under the bill, the Iowa Finance Authority may issue up to \$12 million in tax credit certificates each tax year, an increase from \$6 million under 2018 law. Notably, the \$7.9 million in agreements that existed as of the end of calendar year 2018 are not included as part of the new \$12 million cap. The bill changes the formal name of the program to the "Beginning Farmer



### Stay up to Date with the CALT Brief Podcast

Every other week, we will be recording a podcast to help keep you up to date on key issues in ag law and taxation. One podcast each month will focus on agricultural law and one will focus on tax law. [Listen](#) to our first CALT Brief Podcast - Ag Law edition - recorded April 17. Watch for our next episode, a tax law edition, to be posted later this week. We welcome suggestions for future podcast topics and guests!



### Two Free Webinars Coming Soon!

#### [What You Need to Know about the Farm Syndicate Rule](#)

On May 13, from 1:00 to 2:00 pm CDT, we are partnering with K-Coe Isom to discuss the Farm Syndicate Rule. Tax professionals who work with farm and ranch businesses and owners and CFOs of businesses

# Iowa Legislature Passes Bill to Regulate Tax Return Preparers

- On April 24, 2019, the Iowa Legislature passed HF 590, a bill to regulate tax return preparers. If the bill is signed by the Governor, the new requirements would take effect 01/01/2020.

# Iowa Legislature Passes Bill to Regulate Tax Return Preparers

- “Tax return preparer” means any individual who, **for a fee or other consideration**, prepares **ten or more** Iowa tax returns or claims for refund or who assumes final responsibility for completed work on such tax returns or claims for refund on which preliminary work has been done by another individual.
- “Tax return preparer” ***does not include***: CPAs, licensed public accountants, licensed attorneys, enrolled agents, or fiduciaries of trusts, estates, or individuals.

# Iowa Legislature Passes Bill to Regulate Tax Return Preparers

- Beginning on or after 01/01/2020, “tax return preparers” (TRPs) would be required to include their federal PTIN on any Iowa tax return or claim for refund they file.
- They would also be required to complete a minimum of 15 hours of continuing education courses on subject matters determined by IDOR, including two hours of ethics.
  - Would have to be taken from IRS-approved providers.

# Iowa Legislature Passes Bill to Regulate Tax Return Preparers

- A \$50 penalty would apply to each violation unless the TRP can show that the violation was reasonable under the circumstances and not willful or reckless.
- The maximum penalty could not exceed \$25,000 for any calendar year.
- The Iowa Department of Revenue would modify the forms to include a space for this number.
- IDOR would have authority to enjoin improper conduct.

# Enhanced Iowa Beginning Farmer Tax Credit Program

- On April 25, the Iowa House and Senate passed HF 768, a bill to enhance Iowa's Beginning Farmer Tax Credit Program. Once signed by Governor, the new law will strengthen program that faced big cuts in 2018.
- Iowa Finance Authority may issue up to \$12 million in tax credit certificates each tax year, an increase from \$6 million under 2018 law.
  - Cash rent – 5 percent; Crop share – 15 percent; flex - combination
- \$7.9 million in agreements at end of 2018 are not part new \$12 million cap.

# Enhanced Iowa Beginning Farmer Tax Credit Program

- Although the Iowa Finance Authority (IFA) will retain oversight authority for the program, the bill requires the agricultural development board to designate one of its members to serve on the IFA's board of directors.
- The agricultural development board is also tasked with reviewing and recommending approval of applications for the tax credit.



# Eligible Taxpayers

- Individuals, partnerships, farm corporations, or family farm limited liability companies
- Leasing agricultural land to a qualified beginning farmer (The lease may also include any improvements, as well as the rental of agricultural equipment.)
- Cannot have improperly terminated a prior agreement under which he or she was able to claim a tax credit

# Eligible Taxpayers

- If the agreement includes the lease of a CAFO, cannot be a party to a pending administrative or judicial action, including a contested case, relating to an alleged violation
- Can't be classified as a habitual violator of state law respecting an animal feeding operation
- Can't be a partner of partnership, shareholder of a family farm corporation or member of a family farm LLC that is the lessee of the land under the agreement

# “Qualified Beginning Farmer”

- A qualified beginning farmer must first be a “beginning farmer” under Iowa Code § 16.58: “low or moderate net worth,” or \$680,590 for 2019.
- Individual, a partnership, a family farm corporation, or a family farm LLC
- Resident of Iowa
- “Sufficient” education, training, or experience in farming and access to adequate working capital and production items
- Materially and substantially participate in farming
- Not own more than a 10 % interest in an agricultural asset included in the agreement

# HF 778

- Would modify the capital gains deduction provision from Iowa's tax reform law (SF 2417).
  - Will only be effective at the earliest in 2023 and then only if state revenue targets are met.
  - Broadens the definition of relatives to include second cousins and any relative who is a part owner in the existing business.
  - Allows the farm residence to be included.
  - Removes that provision that would restrict deduction if relative sells the property within five years of the original sale.

# HF 779

- Mostly “clean-up” provisions to last year’s Iowa tax reform bill. Passed 04/27/2019.
  - Not yet signed by the Governor.
- Effective retroactive to 2019



# HF 779 – Geothermal Heat Pump Tax Credit

- Geothermal tax credit – Reinstates credit retroactive to January 1, 2019.
  - Solar credit was extended by SF 2417, but geothermal credit was not.
    - This creates “equity”
  - 20 percent of federal amount
    - Nonrefundable, carry forward
  - Yearly \$1,000,000 cap.
    - First-come, first-served, with wait list

# HF 779 – Like Kind Exchange

- SF 2417 allows individuals in 2019 to elect 1031 treatment for personal property.
- This bill extends this benefit to corporations and bank franchise taxes

## HF 779 - QBI

- In 2019, SF 2417 allows taxpayers to deduct 25 percent of their federal IRC § 199A “qualified business income” deduction on their Iowa return
  - HF 779 clarifies this includes the IRC § 199A(g) cooperative “DPAD” deduction.
  - It also clarifies that this includes taken *and allowable* amounts.



# HF 779 – Research Activities Tax Credit

- Amends Iowa Code into provide that “agriscience” activity is eligible if other requirements are met.
  - Change retroactive to 2017.
  - This is a clarification that agriscience is indeed part of “life science industry.”

# Adoption Credit

- Allows a qualified taxpayer to claim the Adoption Tax Credit in the **tax year when the adoption is finalized**.
- Currently, the eligible taxpayer must file an amended return for expenses incurred during tax years prior to the finalization of the adoption.
  - This change applies retroactively tax year 2019.

# HF 779 - School Tuition Organization Tax Credits

- Increases the total amount of school tuition organization tax credits that may be issued per tax year to \$15 million from \$13 million for tax years beginning on or after January 1, 2020.
- Credits for those who donate to STOs that provide scholarships for students whose family makes less than four times the federal poverty rate to attend accredited private schools.

## HF - 779

- Adds carpentry repair and installation as services subject to Iowa sales tax (July 1, 2019).
- Exempts grain bins and materials used to build and repair grain bins from the sales tax, effective July 1, 2019.
- Removes the 200-sale threshold for remote sellers to be subject to sales tax. Now only subject to \$100,000 requirement (July 1, 2019).
- Reinstates checkoffs for the Iowa State Fair Foundation Fund, joint Veterans Trust Fund and Volunteer Fire Fighter Preparedness Fund for 2019/2020.

# What did not pass?

- SF 583, which would impose so called “sunshine tax,” on solar energy passed the Senate, but did not get a vote in the House.
- Could see more action next term since it would technically only have to pass the House.

# Next Time

- We may have the proposed regulations for 199A(g), deduction for agricultural cooperatives and their patrons.
  - Stay tuned.