Iowa Department of REVENUE

2019 IA 100C

Iowa Capital Gain Deduction – Real Property Used in a Non-Farm Business

https://tax.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 ______________________

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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 (also include a general location description) ________

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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.

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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. Are you the sole owner of this property? Married filers, see instructions.

No ☐ ...... Continue to Part II, line 3.
Yes ☐ .... Enter 100% on Part II, line 3.

3. Enter taxpayer's ownership percentage of the total property sold to three decimal places (for example 65.2%).. 3. _____________%
4. Provide all other owner name(s) ______________________

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

6. Provide all purchaser name(s) ______________________

7. 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 .... 7a. ______________
   b. End date .... 7b. ______________
   c. Total capital gain to be received by the taxpayer over the life of the installment sale .... 7c. ______________
   d. Capital gain received by the taxpayer in tax year 2019 .... 7d. $ ____________

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. If none of these apply, stop, the sale is not eligible for the Iowa Capital Gain Deduction.

   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. $ __________

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Instructions for 2019 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. The entire form must be completed each year of a qualifying installment sale.

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 percentage 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 legally organized. "Rental" is not a legal business organization type.

Line 4. Enter the address of the real property sold, or enter the legal description of the real property if no address is available. If providing a legal description, also provide a general description of the property location in relation to a major road or town.

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. If married filing jointly and both spouses are the only owners, check yes. If married filing separately and both spouses are owners, check no; each spouse must complete an IA100C and indicate on line 3 the separate ownership percentage of that spouse.

Line 3. Enter the taxpayer's ownership percentage of the property sold at the time of the sale to three decimal places (for example: 50.0%; 33.3%). If not the sole owner, the taxpayer's ownership percentage must be less than 100% and greater than 0%.

Line 4. 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 5. Check all boxes that indicate how the taxpayer acquired the property. If “Other”, explain how the taxpayer acquired the property.

Line 6. Enter the names of all persons and entities that purchased the property.

Line 7. 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 2019. 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. Note that the deduction applies to the net capital gain from a sale. Any nonrecaptured losses are treated as ordinary income and are not eligible for the Iowa capital gain deduction. The eligibility of the Iowa capital gain deduction reported here is subject to further examination by the Department.