

Name(s): \_\_\_\_\_ Social Security Number: \_\_\_\_\_

**Purpose of form:** This form is for taxpayers who are eligible individuals and want to make the lifetime election to exclude their net income from a farm tenancy agreement covering real property.

**Part I: Eligible Individual Election**

1. Is the taxpayer an eligible individual? See instructions for definition.  
No  ..... Continue to Part II, line 1  
Yes  ..... Continue to Part I, line 2. If the taxpayer is both an eligible individual and a surviving spouse, the taxpayer must complete Part II.
2. Is the taxpayer making a lifetime election to exclude net income from a farm tenancy agreement covering real property? This will disqualify the taxpayer from claiming the beginning farmer tax credit or electing to deduct capital gains from the sale of real property used in a farming business, cattle, horses, or other breeding livestock in this tax year or in any subsequent tax year.  
No  ..... The taxpayer is not eligible to take this exclusion. Stop.  
Yes  ..... Continue to Part I, line 3
3. Did the taxpayer claim the beginning farmer tax credit this tax year?  
No  ..... Continue to Part I, line 4  
Yes  ..... The taxpayer is not eligible to take this exclusion. Stop.
4. Did the taxpayer, as a retired farmer, elect to exclude capital gains from the sale of real property used in a farming business, cattle, horses, or other breeding livestock in this tax year or any prior tax year? See instructions.  
No  ..... Continue to Part III, line 1  
Yes  ..... The taxpayer is not eligible to take this exclusion. Stop.

**Part II: Surviving Spouse of an Eligible Individual**

1. Is the taxpayer the surviving spouse of an eligible individual?  
No  ..... The taxpayer is not eligible for this exclusion. Stop.  
Yes  ..... Continue to Part II, line 2
2. Provide the date of the spouse's death (MM/DD/YYYY): \_\_\_\_\_
3. Did the decedent make an election to exclude net income from a farm tenancy agreement covering real property prior to death?  
No  ..... Continue to Part II, line 4  
Yes  ..... See instructions before continuing to Part III, line 1.
4. Did the decedent make an election to exclude capital gains from the sale of real property, cattle, horses, or other breeding livestock prior to death?  
No  ..... See instructions about making an election on the spouse's behalf. Stop.  
Yes  ..... See instructions before continuing to Part II, line 5.
5. Does the taxpayer want to disclaim the election made by the decedent prior to death? See instructions for information about disclaiming the election.  
No  ..... The taxpayer is not eligible to take this exclusion. Stop.  
Yes  ..... Complete the Surviving Spouse Disclaimer Form to disclaim the election. Fill out Part I if the taxpayer qualifies as an individual, then continue to Part III, line 1.



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**Part III: Real Property Covered by a Farm Tenancy Agreement**

1. Property address or legal description (include county and a general description of the location):

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2. Total number of acres covered by the farm tenancy agreement: \_\_\_\_\_

3. Complete a separate row for each parcel or parcels covered by the farm tenancy agreement that have different acquisition dates or holding periods.

Parcel Number(s)	Total Acres	Date Acquired	Length of Holding Period (Years and Months)

4. If the taxpayer did not own the property for at least 10 years, explain how the taxpayer held the property for at least 10 years under Internal Revenue Code (IRC) section 1223.

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5. Enter the calendar years covered by the farm tenancy agreement: \_\_\_\_\_

6. Is the farm tenancy agreement written?

No

Yes

7. Enter the name of the lessee: \_\_\_\_\_

8. Enter the relation of the lessee to the taxpayer: \_\_\_\_\_



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**Part IV: Material Participation**

1. Report the following for any 10 years in the aggregate the taxpayer materially participated in a farming business. Note: the 10 years of material participation does not have to be on the property identified in Part III, line 1.

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

2. Cash Rent or Lease Arrangement
- a. Was the property rented on a cash rent or lease basis during the 10 years reported in Part IV, line 1?
    - No  ..... Continue to Part IV, line 3
    - Yes  ..... Continue to Part IV, line 2b
  - b. Did the taxpayer materially participate in the farming activity?
    - No  ..... The taxpayer is not eligible to take the exclusion. Stop.
    - Yes  ..... Continue to Part IV, line 6

3. Crop-Share Arrangement
- a. Was the property involved in a crop-share arrangement during the 10 years reported in Part IV, line 1?
    - No  ..... Continue to Part IV, line 5
    - Yes  ..... Continue to Part IV, line 3b
  - b. Was the taxpayer subject to self-employment tax on the crop-share income?
    - No  ..... Continue to Part IV, line 4
    - Yes  ..... Continue to Part IV, line 6



4. Check the box for each applicable material participation test for which the taxpayer has documentation for the 10 years reported in Part IV, line 1. Check all that apply. If none of these apply, stop, the taxpayer is not eligible to take the exclusion.
- a. The landlord does any three of the following:
    - Pays or is obligated to pay for at least half the direct costs of producing the crop .....
    - Furnishes at least half the tools, equipment, and livestock used in producing the crop .....
    - Consults with the tenant .....
    - Inspects the production activities periodically .....
  - b. The landlord regularly and frequently makes, or takes part in making, management decisions substantially contributing to or affecting the success of the enterprise. ....
  - c. The landlord worked 100 hours or more spread over a period of five weeks or more in activities connected with crop production.....
  - d. The landlord has done tasks or performed duties which, considered in their total effect, show that the landlord was materially and significantly involved in the production of the farm commodities .....
5. Conservation Reserve Program (CRP)
- a. Was the property enrolled in the CRP during the 10 years reported in Part IV, line 1?
    - No  ..... Continue to Part IV, line 6
    - Yes  ..... Continue to Part IV, line 5b
  - b. Is the taxpayer subject to self-employment tax on the CRP income?
    - No  ..... The taxpayer may not be eligible to take this exclusion. See instructions.
    - Yes  ..... Continue to Part IV, line 6
6. Check the box for each applicable material participation test for which the taxpayer has documentation for the 10 years reported in Part IV, line 1. Check all that apply.
- a. Taxpayer participated in the business for more than 500 hours in the year.....
  - b. Taxpayer's participation in the business constituted substantially all participation in the business in the year .....
  - c. Taxpayer participated in the business more than 100 hours in the year, and no other person participated in the business more .....
  - d. Taxpayer participated in the farming business and at least one other business, excluding rental businesses, in the tax year, if for each year claimed:
    - 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.....
  - e. Taxpayer materially participated in the farming business for five of the 10 years prior to the year claimed.....
  - f. 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 .....



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7. Describe in detail by activity (acres personally farmed, cash rent or lease, crop-share, CRP, or other) the daily, weekly, monthly, and annual duties of the taxpayer associated with the farming business during the period covered in Part IV, line 1. 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 V: Details of Real Property**

1. Was the net income from the farm tenancy agreement received as an owner of a pass-through entity?
  - No  ..... Continue to Part V, line 2
  - Yes  ..... The taxpayer is not eligible for the exclusion. Stop.
2. Was the net income from the farm tenancy agreement received from a corporation?
  - No  ..... Continue to Part V, line 3
  - Yes  ..... The taxpayer is not eligible for the exclusion. Stop.
3. Is the taxpayer the sole owner of this property? Married taxpayers, see instructions.
  - No  ..... Continue to Part V, line 4
  - Yes  ..... Enter 100% on Part V, line 4
4. Enter the taxpayer's ownership percentage of the total property leased in the current tax year to the nearest tenth of one percent (for example 65.2%).  
 Married taxpayers see instructions ..... 4. \_\_\_\_\_ %
5. Provide all other owner name(s): \_\_\_\_\_
6. How did the taxpayer acquire the property? (check all that apply)
 

<input type="checkbox"/> Inheritance	<input type="checkbox"/> Like-kind (IRC 1031) Exchange
<input type="checkbox"/> Purchase	<input type="checkbox"/> Involuntary Conversion
<input type="checkbox"/> Gift	<input type="checkbox"/> Other (Explain: _____ )
7. Net income from the farm tenancy agreement received in the current tax year.  
 Enter here and on IA 1040 Schedule 1, line 19, code "oo" ..... 7. \$ \_\_\_\_\_



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## Instructions for 2024 IA 125 – Farm Tenancy Agreement Income Exclusion

### Recent Changes

Eligible individuals may elect to exclude their net income from a farm tenancy agreement if they have materially participated in a farming business for at least 10 years and have held the property being leased for at least 10 years. If an eligible individual elects to exclude their net income from a farm tenancy agreement, they cannot exclude qualifying capital gains from the sale of cattle, horses, other breeding livestock, or real property used in a farming business. An eligible individual also cannot claim the beginning farmer tax credit in the same tax year as the exclusion for net income from a farm tenancy agreement. This form is used to make a single, lifetime election to exclude net income from a farm tenancy agreement covering real property. A separate form shall be used for each farm tenancy agreement covering real property. The Department will use this form to verify that the taxpayer(s) qualifies for the exclusion. The Department may request additional information if needed.

### This completed form must be included with the IA 1040.

For more information on the exclusion of net income from a farm tenancy agreement, see the instructions below and Iowa Administrative Code rule 701—302.88.

### Part I: Eligible Individual Election

**Line 1:** Check the box to indicate if the taxpayer is an eligible individual. “Eligible individual” means an individual who is disabled or who is fifty-five years of age or older at the time the election is made, who no longer materially participates in a farming business at the time the election is made, and who, as an owner-lessor, is party to a farm tenancy agreement. If the taxpayer is both an eligible individual and a surviving spouse, the taxpayer must complete Parts I and II.

**Line 2:** Check the box to indicate if the taxpayer is making a single, lifetime election to exclude their net income from a farm tenancy agreement covering real property. This election will disqualify the taxpayer from making an election to exclude capital gains from the sale of cattle, horses, other breeding livestock, and real property used in a farming business in this tax

year or any subsequent tax year. This election will also disqualify the taxpayer from claiming the beginning farmer tax credit in this tax year.

**Line 3:** Check the box to indicate if the taxpayer claimed the beginning farmer tax credit in this tax year.

**Line 4:** Check the box to indicate if the taxpayer has made an election to exclude capital gains from the sale of cattle, horses, other breeding livestock, and real property used in a farming business in this tax year or in any prior tax year. If the taxpayer excluded capital gains from the sale of real property used in a farming business in a prior tax year without making an election as a retired farmer, the taxpayer is still eligible to make the election to exclude net income from a farm tenancy agreement.

### Part II: Surviving Spouse of an Eligible Individual

**Line 1:** Check the box to indicate if the taxpayer is a surviving spouse of an eligible individual.

**Line 2:** Enter the date of the spouse’s death.

**Line 3:** Check the box to indicate if the decedent made a single, lifetime election to exclude net income from a farm tenancy agreement covering real property prior to death. A surviving spouse may make an election on the decedent’s behalf on the decedent’s final return if the decedent was eligible to make an election prior to death.

**Line 4:** Check the box to indicate if the decedent made a single, lifetime election to exclude capital gains from the sale of real property, cattle, horses, or other breeding livestock prior to death. If lines 3 and 4 are both checked “No,” then the decedent did not make an election prior to death. A surviving spouse may make an election on the decedent’s behalf on the decedent’s final return if the decedent was eligible to make an election prior to death.

**Line 5:** Check the box to indicate if the taxpayer wants to disclaim the election made by the decedent prior to death. If the taxpayer wants to disclaim the election, the taxpayer must complete the Surviving Spouse Disclaimer Form and include it with their return.

A surviving spouse must make the disclaimer by the due date of the tax return, including extensions, for the tax year immediately following the tax year of the retired farmer's death. If the taxpayer wants to make their own election, after disclaiming the decedent's election, the taxpayer must fill out Part I as an eligible individual and complete the form. If the taxpayer does not want to disclaim the election, the taxpayer is not eligible to claim the farm tenancy income exclusion. For more information about disclaiming the election, see Iowa Administrative Code rules 701–302.87(3)“b”(3) and 701–302.88(3)“b”.

### **Part III: Real Property Covered by a Farm Tenancy Agreement**

**Line 1:** Enter the address of the property, or enter the legal description of the 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 and the county.

**Line 2:** Enter the total number of acres of property covered by the farm tenancy agreement.

**Line 3:** Complete a separate row for each parcel or parcels that have different acquisition dates or different holding periods. If you have more than seven parcels with different acquisition dates, include a separate page listing any additional parcels.

**Parcel Number(s):** Enter the parcel number or numbers for each parcel covered by the farm tenancy agreement.

**Total Acres:** Enter the total number of acres in the parcel number or numbers entered in the previous column. Note: The total number of acres entered in all of the rows of this column should match the total number of acres entered on line 2, if all of the acres covered by the farm tenancy agreement qualify for the farm tenancy exclusion.

**Date Acquired:** Enter the acquisition date for the property as indicated in supporting documentation.

**Length of Holding Period:** Enter the length of the holding period in years and months.

**Line 4:** If the acquisition date indicated in Part III, line 3 is less than 10 years from the time of making the election on this form, explain why

the ownership period differs from the holding period entered in Part III, line 3. The property must be held, as defined using Internal Revenue Code (IRC) section 1223, for at least 10 years to qualify for the exclusion.

**Line 5:** Enter the calendar years covered by the farm tenancy agreement.

**Line 6:** Check “Yes” or “No” to indicate whether the farm tenancy agreement is a written agreement.

**Line 7:** Enter the name of the lessee of the farm tenancy agreement.

**Line 8:** Enter the relationship of the lessee to the taxpayer. If none, enter “None.”

### **Part IV: Material Participation in a Farming Business**

**Line 1:** Complete the table for any 10 years in the aggregate the taxpayer materially participated in a farming business. The 10 years of material participation does not have to be on the property identified in Part III, line 1.

**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:** Other than the Federal 1040, enter the specific federal form or schedule number or letter on which the taxpayer reported income from the land in the respective calendar year. Income from real property used in a farming business is typically reported on federal Schedule E, Schedule F, or Form 4835.

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

**Cash rent acres:** Enter the number of acres of the property 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 property that were leased for cash rent by either spouse.

**Crop-share acres:** Enter the number of acres of the property 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 property that were under a crop-share lease agreement by either spouse.

**CRP acres:** Enter the number of acres of the property 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 property enrolled in the CRP by either spouse.

**Other acres:** Enter the number of acres of the property 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 property 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 may be different than the total number of acres covered by the farm tenancy agreement as entered in Part III, line 2.

## **Line 2: Cash Rent or Lease Arrangement**

**Line 2a:** Check the box to indicate if the property was rented on a cash rent or lease basis during the years reported in Part IV, line 1. A farmer who rents property on a cash basis will not generally be considered to be materially participating in the farming activity. The burden is on the landlord to show there was material participation in the cash rent or lease farm activity.

**Line 2b:** Check the box to indicate if the taxpayer materially participated in the farming activity.

## **Line 3: Crop-Share Arrangement**

**Line 3a:** Check the box to indicate if the property was involved in a crop-share arrangement during the years reported in Part IV, line 1.

**Line 3b:** Check the box to indicate if the taxpayer was subject to self-employment tax on the crop-

share income. If income from a crop-share arrangement was reported on federal Form 4835, the income was not subject to self-employment tax and therefore may not be eligible for the Iowa farm tenancy income exclusion.

**Line 4:** The taxpayer must satisfy at least one of the four tests for material participation for each of the years reported in Part IV, line 1 that the property was in a crop share arrangement. 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 Iowa Administrative Code rule 701–302.88(2).

## **Line 5: Conservation Reserve Program (CRP)**

**Line 5a:** Check the box to indicate if the property was enrolled in the CRP during the years reported in Part IV, line 1.

**Line 5b:** Check the box to indicate if the income from the CRP was subject to self-employment tax. If a taxpayer actively manages property placed in the CRP by directly participating in seeding, mowing, and planting the property or by overseeing these activities and the taxpayer is paying self-employment tax, the taxpayer will be considered to be materially participating in the farming activity. For more information on the requirements for material participation with regard to the CRP, see Iowa Administrative Code rule 701–302.88(2).

**Line 6:** The taxpayer must satisfy at least one of these six tests for material participation for each of the years reported in Part IV, line 1. Check the box for each test claimed. More than one test may be claimed. For more information on the tests for material participation, see Iowa Administrative Code rule 701–302.88(2).

**Lines 6b and 6c:** 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 nonemployees who helped maintain the property or otherwise participated in the business.

**Line 6d:** 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.



**Line 6e:** If claiming this test, the taxpayer must be able to show that, for each year claimed, the taxpayer materially participated under any of the tests in lines 6a through 6d for five of the 10 years prior to the year claimed. If claiming this test, the taxpayer must also report having satisfied at least one of the tests in lines 6a through 6d.

**Line 6f:** If claiming this test, include in Part IV, line 7 an explanation of how the taxpayer materially participated each year in the business.

**Line 7:** Enter the taxpayer's daily, weekly, monthly, and yearly activities in the farming business during the period identified in Part IV, line 1. Describe the taxpayer's 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 or the taxpayer's spouse, such as tenants and farm hands. For inherited property, activities performed by the decedent prior to death are not considered when determining whether a taxpayer has materially participated. The taxpayer's activities must be supported by records. Records prepared long after the activity are generally not acceptable.

#### **Part V: Details of Real Property**

**Line 1:** Check the box to indicate whether the net income from a farm tenancy agreement is received as an owner from an entity taxed as a partnership for federal tax purposes, an S corporation, a trust, or an estate.

**Line 2:** Check the box to indicate whether the net income from a farm tenancy agreement is from a corporation.

**Line 3:** Check the box to indicate if the taxpayer is the sole owner of the property. Married taxpayers should check "No" if they jointly own the property.

**Line 4:** Enter the taxpayer's ownership percentage of the property in the current tax year rounded to the nearest tenth of one percent (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%. If married and only one spouse is making the single, lifetime election to exclude net income from a farm tenancy agreement, only include the ownership percentage of the spouse making the election. If both spouses are making the election, each spouse must complete an IA 125 and report their respective ownership percentage.

**Line 5:** Enter the names of all persons and entities that owned the property at the time of the farm tenancy agreement.

**Line 6:** Check all boxes that indicate how the taxpayer acquired the property. If "Other", explain how the taxpayer acquired the property.

**Line 7:** Enter the amount of the taxpayer's net income from a farm tenancy agreement. The eligibility of the exclusion reported here may be subject to further examination by the Department.