Iowa Department of REVENUE

2023 IA 100C

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

tax.iowa.gov

Name(s):_________________________________ Social Security Number:________________

This form is only used for installment sales occurring prior to January 1, 2023.

Part I: Details of Sale

1. Did the sale occur prior to January 1, 2023?
   - No ☐......Sale is not eligible for Iowa capital gain deduction. Stop.
   - Yes ☐......Continue to Part I, line 2
2. Is the capital gain from an installment sale?
   - No ☐......Sale is not eligible for Iowa capital gain deduction. Stop.
   - Yes ☐......Enter the installment sale information:
     - a. Start date (mm/dd/yyyy): ________________
     - b. End date (mm/dd/yyyy): ________________
     - c. Total capital gain to be received by taxpayer over the life of the installment sale ....$ ____________
     - d. Total capital gain deduction claimed in prior years....$ ____________
     - e. Capital gain received by the taxpayer in the current tax year .... $____________

Part II: 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
   - ☐ Sole proprietorship
   - ☐ Limited liability company (LLC)
   - ☐ S Corporation
   - ☐ C Corporation
   - ☐ 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 10 years, explain how the taxpayer held the property for at least 10 years under IRC section 1223.

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Part III: Details of Property Sold

1. Is the capital gain from a C corporation?
   - No ☐ ......Continue to Part III, line 3
   - Yes ☐ ......Continue to Part III, line 2

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2. Was the capital gain recognized under IRC 331 or IRC 338?
   No ☐ ......Sale is not eligible for Iowa capital gain deduction. Stop.
   Yes ☐ ......Continue to Part III, line 3.

3. Are you the sole owner of this property? Married filers, see instructions.
   No ☐ ......Continue to Part III, line 4.
   Yes ☐ ......Enter 100% on Part III, line 4.

4. Enter taxpayer's ownership percentage of the total property sold to the nearest one tenth of a percent (for example 65.2%)..............................4. ____________ %

5. Provide all other owner name(s): ______________________________

6. How did the taxpayer acquire the property? (check all that apply)

   ☐ Inheritance
   ☐ Purchase
   ☐ Gift
   ☐ Like-kind (IRC 1031) Exchange
   ☐ Involuntary Conversion
   ☐ Other (Explain): ______________

7. Provide all buyer name(s): ______________________________

Part IV: Material Participation in a Business

1. Describe in detail the business use of this property: ______________________________

2. Was the property rented to a business in which you have or had an ownership interest?
   No ☐ ......Continue to Part IV, line 3.
   Yes ☐ Explain your participation in the rental business, excluding tenant business activity. Note that participation associated with the tenant business does not count towards participation in the rental business.

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3. 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. Note that participation associated with the tenant business does not count towards participation in the rental business.

   3a. Test 1: Taxpayer participated in the business for more than 500 hours in the year. ...... ☐

   3b. Test 2: Taxpayer's participation in the business constituted substantially all participation in the business in the year. .... ☐

   3c. Test 3: Taxpayer participated in the business more than 100 hours in the year, and no other person participated in the business more. .... ☐

   3d. Test 4: Taxpayer participated in the business that sold the property 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. .... ☐

   3e. Test 5: Taxpayer materially participated in the business for five of the 10 years immediately prior to the year claimed. .... ☐

   3f. Test 6: Taxpayer materially participated in a personal service activity for at least three years (may be outside the 10 years prior to the sale). .... ☐

   3g. 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. .... ☐

4. 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. Please note that participation associated with the tenant business does not count towards participation in the rental business.

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5. Iowa capital gain deduction. Enter the amount of the taxpayer's capital gain deduction from Part I, line 2e here and include on IA 1040 Schedule 1, line 16. .... 5. $____________

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Instructions for 2023 IA 100C – Iowa Capital Gain Deduction for the Sale of Real Property Used in a Non-Farm Business

What's New: The IA 100C should only be used for installment sales occurring before January 1, 2023.

Under tax reform passed in 2018 and 2019, and modified during the 2021 and 2022 legislative sessions, the Iowa capital gain deduction is repealed for most transactions occurring on or after January 1, 2023. This repeal applies to all sales except:

1. Certain sales of real property used in a farming business
2. Sales of cattle or horses held for breeding, draft, dairy, or sporting purposes by a retired farmer who has sold all or substantially all of their interest in the farming business
3. Sales of breeding stock, other than cattle or horses, by a retired farmer who has sold all or substantially all of their interest in the farming business

Deductions for previously eligible installment sales will still be allowed if the sale occurred prior to January 1, 2023.

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, 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 on the Department's website. For more information on the Iowa capital gain deduction, see the instructions below and Iowa Administrative Code rule 701—302.38 (2022).

Part I: Details of Sale

Line 1: Check the box to indicate whether the sale occurred prior to January 1, 2023.

Line 2: Check the box to indicate whether 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, the total capital gain deduction claimed in prior years, and the capital gain the taxpayer received during tax year 2023. Do not include any interest received.

Part II: 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 doing business as names used. If the business was a sole proprietorship with no separate legal or doing business as 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 II, 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 II, 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 and the county.

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 II, line 5 is less than 10 years, explain why the ownership period differs from the holding period entered in Part II, 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 10 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 10 years.

Part III: Details of Property Sold

Line 1: Check the box to indicate whether the capital gain is from a C corporation.

Line 2: Indicate whether the C corporation capital gain was from the liquidation of assets which are recognized as a sale of assets under IRC section 331 or from certain stock sales which are treated as an acquisition of assets under IRC section 338.

Line 3: 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 IA 100C and indicate on line 4 the separate ownership percentage of that spouse.

Line 4: Enter the taxpayer's ownership percentage of the property sold at the time of the sale to the nearest one 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%.

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

Part IV: Material Participation in a Business

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

Line 2: Check the box to indicate if the property was rented to a company in which the taxpayer has or had an ownership interest. If yes, explain participation in the rental business, excluding participation associated with the tenant business activity.

Lines 3a-3g: The taxpayer must satisfy at least one of these seven tests for material participation for each of the 10 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 Iowa Administrative Code rule 701—302.38(1)"e" (2022).

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, excluding rental businesses. 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 10 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 IV, line 4. These three years may be before the 10 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 4: Enter the taxpayer's daily, weekly, monthly, and yearly activities in the business identified in Part II, line 1 during the 10 years prior to the sale (if Test 6 is claimed in Part IV, line 3, enter the activities for the relevant three-year period). The activities must verify the taxpayer satisfies the test(s) claimed in Part IV, line 3. 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. 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 generally cannot establish material participation.

Line 5: 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 may be subject to further examination by the Department.