Overview of the Iowa Capital Gain Deduction and an Analysis of Forms IA 100 A–F for Tax Year 2016

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August 2017

Introduction

This paper builds upon the series of papers on the Iowa Capital Gain Deduction completed in the past two years (see *Review of Capital Gain Deduction* and *Review of Capital Gain Deduction and 2015 IA 100*) by updating the overview of the Iowa Capital Gain Deduction from 2004 to 2015 and providing a preliminary analysis of claims for tax year 2016. Additionally, with the redesign of the IA 100 form into six new forms for tax year 2016, IA 100 A–F, this paper also analyzes the findings from the new forms.

Definition and History of Iowa Capital Gain Deduction

A capital gain is defined as profit that results from a disposition of a capital asset where the amount realized on the disposition exceeds the purchase price. The gain is derived from the positive difference between the higher selling price and the lower purchasing price of the asset. All net capital gains are included in federal and Iowa adjusted gross income. The Iowa Capital Gain Deduction (CGD) allows the taxpayer to subsequently subtract the realized net capital gains from Iowa adjusted gross income, upon the sale of an eligible capital asset satisfying one of six categories, exempting all of the gains from Iowa income tax. These six categories are outlined in forms 2016 IA 100A-F:

A. Sale of Cattle, Horses, or Breeding Livestock (Form 2016 IA 100A)
B. Sale of Real Property Used in a Farm Business (Form 2016 IA 100B)
C. Sale of Real Property Used in a Non-farm Business (Form 2016 IA 100C)
D. Sale of Timber (Form 2016 IA 100D)
E. Sale of a Business (Form 2016 IA 100E)
F. Sale of Employer Securities to a Qualified Iowa Employee Stock Ownership Plan (ESOP) (Form 2016 IA 100F)

One eligibility requirement for the Iowa Capital Gain Deduction is that the capital asset sold cannot be owned by a C corporation, except under the specific circumstance of a certain realized capital gain on the liquidation of assets for federal income tax purposes under section 331 of the Internal Revenue Code, as described in the Iowa Administrative Code (IAC) subrule 40.38(7). For taxpayers selling a business, or real property used in a farm or non-farm business, ten-year minimum holding and material participation requirements must be met for the asset to be eligible for the deduction. For the sale of a business, these requirements are waived if the sale is to an individual or individuals who are all lineal descendants of the taxpayer, as specified in IAC subrule 40.38(3). However, this waiver does not apply to the sale of real property, as described in IAC subrule 40.38(2).

Historically, the Iowa Capital Gain Deduction first appeared on the Iowa 1040 individual income tax form in January 1, 1990, as enacted in Senate File 537 of the 73rd Iowa General Assembly. For sales made on and after that date, Iowa taxpayers could claim a 45 percent deduction of eligible capital gains, specified as assets in categories A through E above. Additionally, deductions were capped at $17,500 per tax year. While the categories for eligible capital assets have remained mostly constant, there were changes made over time to the eligible amount of the deduction, and the material participation and holding length requirements. The 77th Iowa General Assembly (1998) made significant adjustments to capital gains treatment for Iowa income tax purposes, as outlined in House File 2513. First, the partial deduction of 45 percent was increased to a 100 percent deduction, effective

January 1, 1998, for tax years beginning on and after that date. The $17,500 maximum cap on the deduction amount was also eliminated. Second, for businesses and assets for a business, material participation for the minimum ten-year holding period was no longer required if a taxpayer sold the asset to a lineal descendant. Also, if the taxpayer made sales of cattle, horses and breeding livestock to a lineal descendant, the requirement that more than 50 percent of the taxpayer's gross income be derived from farming and ranching activities was eliminated. The definition of "lineal descendant" comprises children of the taxpayer, including legally adopted and biological children, stepchildren, grand-children, great-grandchildren, and other lineal descendants of the taxpayer.

Additions to the treatment of capital gains for Iowa income tax purposes were made in 2006 and 2012. The 81st Iowa General Assembly (2006) loosened the holding requirement with reference to the federal holding provisions outlined of section 1223 of the Internal Revenue Code. Prior to 2006, to be eligible for Iowa Capital Gain Deduction, the sold assets must have been strictly "owned" by the taxpayer for the immediately preceding ten years. With the federal change and the subsequent approval of House File 2465 by the Iowa General Assembly, effective January 1, 2006, the ten-year holding requirement would be satisfied if the taxpayer held the sold assets as defined in the federal code. Finally, category F above was added by the 84th Iowa General Assembly (2012). Outlined under Section 133 in House File 2465, taxpayers could claim a 50 percent deduction for the sale or exchange of employer securities of an Iowa corporation to a qualified Iowa Employee Stock Ownership Plan (ESOP). To be eligible for this deduction, the qualified Iowa ESOP must own at least 30 percent of all outstanding employer securities issued by the Iowa corporation after completion of the transaction.

Until tax year 2015, information readily available on the Iowa Capital Gain Deduction was restricted to the number of claims and the dollar amount of each deduction claimed. After attempting to discern aggregate data about the usage of the deduction and many years of experience auditing the deductions years after the claim was filed, internal discussions within the Department led to the development of the IA 100 to collect key information regarding the assets for which the taxpayers claimed the Iowa Capital Gain Deduction at the time of filing. Taxpayers with multiple eligible sales of assets were required to file a separate form IA 100 for each asset sale, with the exception of livestock sales.

The six-page form was initially met with some confusion from taxpayers, especially from those claiming deductions for sales of livestock, who were by far the most prevalent claimants for the deduction. Thus, beginning with tax year 2016, the Department split the IA 100 into six separate forms, IA 100 A to F. Each form in the series addresses one of the various types of sales potentially eligible for the Iowa Capital Gain Deduction. The following analysis unpacks the findings about the data provided on the IA 100 A-F, and compares with data from the 2015 IA 100 where applicable.

Overview of Iowa Capital Gain Deduction from 2004 to 2016

In this analysis, all paper and electronic taxpayers who claimed a nonzero amount of Iowa Capital Gain Deduction (CGD) were included. Rather than analyzing the data on a tax return, or household, basis as in the previous two analyses (see *Review of Capital Gain Deduction* and *Review of Capital Gain Deduction and 2015 IA 100*), this analysis considers claims on an individual taxpayer basis. Therefore, in this analysis each single taxpayer, each married couple filling jointly, and each spouse filling separately either on a combined return or separate returns is considered a single observation.

1. Total Amount of Iowa CGD

The sum of all Iowa CGD across all observations recorded gives the total dollar amount claimed for the examined period. For tax years between 2004 and 2016, a total of $8.5 billion of Iowa CGD was claimed by 163,073 unique taxpayers, including both electronic and paper filers, who have been through the final review. Claims for tax year 2016 are as of July 21, 2017, while taxpayers can file timely through October 31, 2017.

The total dollar amount of Iowa Capital Gain Deduction claimed varied widely across tax years (see Figure 1). From tax year 2004 to 2007, the total amount increased steadily at a rate between 20 and 30 percent, from $0.45 billion until its local peak at $0.92 billion. However, this figure fell to $0.79 billion in 2008 and then plummeted to $0.46 billion in 2009, likely as a result of the financial crisis and ensuing recession. Since tax year 2010, total deductions marginally fluctuated between $0.51 billion and $0.62 billion, with the exception of tax year 2012, where the total amount of Iowa CGD soared to $1.33 billion. A pending tax year 2013 federal tax rate increase for capital gains incentivized taxpayers to sell their assets in anticipation of the possible change along with peak farmland prices encouraging farmland sales (see *Review of Capital Gain Deduction*).

The total Iowa CGD claimed in tax year 2016 is projected to exceed tax year 2015. Excluding outliers (five claims exceeding $10 million), for tax year 2015 $392 million in deductions were claimed through July 21, 2016, but by the end of the filing season, claims increased 28 percent to a total of $502 million. This large increase in the last four months of the tax year 2015 filing season was partly caused by the difference in average Iowa CGD by early filers and late filers, especially for taxpayers claiming the Iowa CGD on sales of livestock and businesses. The average deduction claimed by taxpayers before July 21 was only $60,000 across all eligibility categories, but for late filers, this number was approximately $190,000. Assuming this 28 percent increase is repeated in the 2016 filing season, the total Iowa CGD for tax year 2016 is projected to be $654 million, suggesting a 23 percent increase in total deductions from the previous tax year.

2. Total Number of Iowa CGD Claimants

The number of taxpayers claiming Iowa CGD experienced two significant drops between 2004 and 2016 (see Figure 2). Between 2004 and 2008, there were approximately 16,000 claimants; in 2009 the number dropped to roughly 10,000 in each of the next six years. While the lower count in tax years 2009 and 2010 could be attributed to the lasting effects of the financial crisis, the persistence of this trend in the following tax years might have resulted from the enhanced auditing process on capital gain deduction claims beginning in tax year 2009, which likely discouraged some ineligible claims. The number of claimants fell further to 7,201 in tax year 2015 and 5,949 in tax year 2016, as of July 21, 2017, coinciding with the introduction of the Iowa Capital Gain Deduction Form.

Since data for tax year 2016 is preliminary, data for tax year 2015 is examined to estimate the expected total number of claimants for tax year 2016. Through July 21, 2016, the number of claimants for tax year 2015 was 6,536. By the end of the tax season, an 8.6 percent increase in the count brought claims to 7,201. Assuming the same rate of filing during the last few months of the filing season for tax year 2016, the total number of Iowa CGD claimants is projected to rise to 6,554. This projection suggests a further decrease in number of claimants coinciding with the introduction of form IA 100 in 2015 (-37%) and the six forms IA 100 A to F in 2016 (-9%). The forms were meant to serve as both as an information collecting tool for the Department and an educational tool for the taxpayers, informing them of the eligibility of their assets for Iowa CGD. It appears that the existence of the form has resulted in some taxpayers deciding their asset sales do not qualify.

Alternatively, there could have been exogenous shocks affecting the number of taxpayers reporting capital gains, and changes within this group of taxpayers might be correlated with the number of Iowa CGD claimants. Returns filed electronically suggest that from tax year 2014 to 2015, the number of taxpayers reporting capital gains fell by 3 percent. However, this is not sufficient to explain the 37 percent reduction in the number of Iowa CGD claimants observed between those tax years.

The forecast results suggest an increasing trend in the total amount of Iowa CGD claimed since tax year 2014, yet a decreasing trend in the total number of claimants, which implies higher average CGD amounts reported in tax years 2015 and 2016. In fact, the average CGD reported in the period between 2015 and 2016 was 49 percent greater than the average across the six years prior to tax year 2015 (see Table 1). A closer examination reveals that this higher average was not simply caused by outliers: the median taxpayer in tax years 2015 and 2016 reported an Iowa CGD claim almost twice as high as the median taxpayer in the period between tax year 2009 and 2014. In addition, the higher value at the 10th percentile in tax years 2015 and 2016 suggests many claimants who stopped making claims in 2015 were more likely to have reported a low amount of Iowa CGD (e.g. under $500).

3. Demographic Analysis

A closer look at the demographics of taxpayers over the years may reveal some characteristics of the population that stopped claiming the Iowa CGD, focusing on the first drop in 2009 and the second in 2015. In terms of residence status, the share of total Iowa CGD claimed by residents has been on a downward trend (see Figure 3). While Iowa residents claimed on average 90 percent of the total Iowa CGD from 2004 to 2008, this share decreased to almost 86 percent between 2009 and 2014, and further to 82 percent in 2015 and 2016. With the downward trend in the number of claimants over the last 13 tax years, claims by both residents and nonresidents have fallen; however, the average number of nonresident taxpayers has decreased at a greater rate than that of resident taxpayers (see Figure 4). This can be observed most clearly in the two most recent tax years; whereas the average number of resident claimants in 2015 and 2016 fell by 40 percent compared to the average over 2009 through 2014, the average number of nonresident claimants fell by 65 percent.

In terms of age, data suggests that since the introduction of the IA 100 forms, taxpayers aged 65 and above have claimed less frequently and claimed a smaller share of the total Iowa CGD.[1] Between 2004 and 2008, taxpayers aged 65 and above claimed almost 74 percent of the total CGD, while those below age 65 claimed a combined share of 26 percent (see Figure 5). These figures grew closer between 2009 and 2014, with taxpayers aged 65 and above claiming almost 63 percent, and taxpayers below age 65 claiming 37 percent. However, the average distribution over the past two tax years reversed with taxpayers below age 65 claiming a combined share of 63 percent while taxpayers aged 65 and above

[1] There were a total of 920 observations without information on age across all available tax years. Rather than omitting these observations, the missing ages were imputed using the mean age of all other taxpayers by each tax year.

claimed only 37 percent. The number of claimants aged 65 and above has also decreased significantly over time (see Figure 6). The number has dropped from roughly 11,000 in tax year 2004 to only 2,300 in tax year 2016. For taxpayers below age 65, the number of claimants has fluctuated between 4,200 and 6,200 between 2004 and 2014, and dropped to an average of 3,800 in 2015 and 2016. The percentage drop in tax year 2015 from the average count observed the prior six years was nearly twice as high for taxpayers aged 65 and older (46%) than the younger group (24%). However, it should be noted that the number of claimants below age 65 dropped significantly in 2009, experienced an increase from tax year 2009 to 2014, until falling in tax year 2015 to the lowest level observed.

Finally, in terms of adjusted gross income (AGI), while the Iowa CGD is one of the adjustments against gross income, a clear shift in claims is observed. Taxpayers with AGI between $0 and $75,000 have claimed less in total amount of Iowa CGD over time. Before 2009, taxpayers with AGI less than $75,000 and greater than $0 claimed 36 percent of the total Iowa CGD (see Figure 7). However, their share fell to 29 percent from tax year 2009 to 2014 and to only 21 percent in 2015 and 2016. On the other hand, taxpayers with AGI greater than $250,000 have claimed a growing share of the total Iowa CGD over time. From 2004 to 2008, they claimed only 31 percent of total Iowa CGD, rising to 36 percent, from 2009 to 2014, and in the past two tax years the share climbed to 43 percent. For taxpayers with AGI below $0, AGI between $75,001 and $100,000, and AGI between $100,000 and $250,000, their shares of total Iowa CGD have been relatively stable, at 20 percent, 4 percent and 11 percent respectively. In regards to number of claimants, taxpayers with AGI between $0 and $75,000 experienced greater reductions than any other group (see Figure 8). Between tax years 2004 and 2008, almost 12,000 taxpayers within this AGI group reported a nonzero amount of Iowa CGD. However, only 7,800 taxpayers claimed deductions between 2009 and 2014, and in tax years 2015 and 2016, this number has fallen to 3,700. For taxpayers with AGI below $0 or between $75,001 and $100,000, the number of claimants also decreased, but by a smaller margin, between 200 and 500 claimants across the examined periods, 2004-2008, 2009-2014 and 2015-2016. Despite the large increase in the share of dollars claimed by claimants with AGI above $250,000, the number of claims filed has remained relatively flat.

This analysis suggests that the types of taxpayers who stopped making claims in both 2009 and again in 2015 were some combination of middle-income, elderly, and nonresident taxpayers, often claiming a relatively small amount of Iowa CGD in tax years 2014 and earlier.

4. Analysis of Persistent Claimants

Another interesting analysis is the persistence of claimants over the span of ten tax years. Between 2005 and 2014, there were 997 taxpayers identified as making ten years of consecutive claims. Assuming that these taxpayers reported deduction claims from the same type of sale as deducted for tax year 2014, 53 percent claimed a deduction on livestock sales, 27.8 percent on farmland sales, 12.6 percent on non-farm property and business sales, and 1.6 percent on timber sales (see *Review of Capital Gain Deduction*). With no form in tax year 2014 to directly identify the eligibility category of the CGD claim, the type of CGD could not be identified for the remaining 5 percent of claims. In tax year 2015, the number of taxpayers making ten years of consecutive claims fell to 800. The distribution of taxpayers by type of sale, clearly identified on the IA 100, also shifted: 77.6 percent claimed the Iowa CGD on sales of livestock, 14.9 percent on farmland sales, 3.3 percent on sales nonfarm property, 3.1 percent on timber sales, and 1.1 percent on business sales. Sales of farmland, business and nonfarm property were likely installment sales. It is possible that the lower percentage of persistent claimants of farmland and business sales could suggest the installments ended in tax year 2014. However, these changes could also be attributed to how each category (livestock, farm, business, timber) was determined. Without form IA 100 to define the categories, categorization relied on the property description provided by the taxpayers on the other available tax forms. Consequently, certain types of sales, like livestock and farm sales, where descriptions of the two sale types may have shared several attributes, could have been misidentified.

For tax year 2016 to-date, only 584 of the 800 persistent taxpayers identified in tax year 2015 have claimed the Iowa CGD. It is possible that an additional 200 claims could be filed in the last few months of the filing season. Despite the observed drop in persistent taxpayers, the shape of the distribution by category stayed the same. The majority of taxpayers, 78.8 percent, claimed a deduction for livestock sales, 14.8 percent for farmland sales, 2.8 percent for sales of nonfarm property, another 2.8 percent for timber sales, and only 0.7 percent claimed the Iowa CGD for business sales. Note that ESOP claims were only available beginning in tax year 2012, thus it is not possible for those taxpayers to have made ten years of claims in this category.

Analysis of Tax Year 2016 Forms IA 100 A–F

1. **Comparison of Tax Year 2016 Claims to Tax Year 2015**

The following section discusses the findings from the analysis of the six forms IA 100A to IA 100F, as completed by Iowa CGD claimants for tax year 2016 filed electronically through July 21, 2017. These claims are as reported by the taxpayer at the time of filing and do not reflect outcomes of subsequent audit by the Department. Here, the observation of interest is a single form for each eligibility category filed by either a single taxpayer, a married couple filing jointly, or each spouse if married filing separately on a combined return or on separate returns. Thus, the total number of observations in this analysis is 6,301, as opposed to the 5,949 observations specified in the above section, which is the number of unique taxpayers with one or multiple CGD claims. Only forms reporting nonzero Iowa CGD were kept in this analysis. This overall analysis does not omit forms claiming Iowa CGD on seemingly ineligible sales of assets, such as assets where the taxpayer reported not meeting a minimum holding period requirement. A more detailed examination of these observations will be discussed upon analyzing each form individually.

Taxpayers filed over 3,000 forms with claims for a deduction for the capital gain on sales of livestock, yet they only accounted for 13 percent of the total amount of Iowa CGD claimed in 2016 (see Figure 9 and Figure 10). Thus, despite the high number of forms, the average claim was $18,600, the second lowest average CGD claimed per form across all eligibility categories (see Figure 11). On the other hand, around 450 forms reported a sale of a business, yet they totaled $241 million of Iowa CGD, which was 51 percent of the total amount of Iowa CGD reported. On average, each form reported $517,700 in CGD for a business sale. Forms reporting a sale of farm property and nonfarm property claimed 20 percent and 15 percent of total Iowa CGD, respectively; the average amounts of Iowa CGD claimed in these two eligibility categories are roughly similar at $75,000. The sale of timber was reported on 424 forms, constituting only 1 percent of total Iowa CGD; the average CGD claimed was the lowest across all categories at only $15,200 per form. Finally, only six forms claimed an Iowa CGD on the sale of employer securities to an ESOP. Despite the average deduction for ESOP being the second highest, at $268,200 per form, the claims made up less than 1 percent of the total Iowa CGD reported.

The shares of total CGD from sales of farmland, real property in a non-farm business, timber and ESOP largely stayed consistent between tax years 2015 and 2016 (see Figure 9). However, more discernible changes occurred with the shares of total Iowa CGD from sales of livestock and business. In particular, the share of Iowa CGD from livestock sales decreased from 18 percent for all of tax year 2015 to 13 percent for tax year 2016 through July 21, 2017. Conversely, the share of Iowa CGD from business sales increased from 43 percent to 51 percent.

The relationship of claims across the six eligibility categories is nearly the same between the two years (see Figure 10). While the count of business sales was fourth in 2015 and 2016, that rank for tax year 2015 was reached only after late filers were counted. The biggest drop in counts between the two years is for livestock claims, down 900 (22%). However, the largest percentage drop is seen in claims for sales to an ESOP (68%) with a drop from 19 to only 6. As noted above, it is expected that the count of Iowa CGD will increase by around 600 with returns filed in the last few months of the processing year, so the final numbers could change significantly from the information presented here.

2. Installment Sales and Ownership

Around 1,600 forms reported an Iowa CGD resulting from an installment sale, which is a sale of an asset where the taxpayer receives at least one more payment after the year of the sale. Deductions resulting from an installment sale, not surprisingly, are significantly less on average than those from regular sales for the same eligibility category, because the payments for the sale are realized over two to more than forty years under the former and in only one year under the latter. The data also suggests that installment sales are more prevalent in certain eligibility categories, which will be discussed in the following analyses of each Iowa CGD form. Together claims resulting from installment sales comprised $64 million of Iowa CGD, 13 percent of the total Iowa CGD reported (see Figure 12). The average deduction resulting from an installment sale for any eligibility category was approximately $40,000 per form, whereas the average Iowa CGD resulting from a regular sale was almost $86,000 per form, although these numbers varied across eligibility categories.

In terms of ownership of the asset sold, 5,350 forms reported the taxpayer fully owned the asset; however, total Iowa CGD on sales of assets fully owned by taxpayers only accounted for 51 percent of total Iowa CGD on all sales reported. The other 951 forms which claimed deductions on sales of partially owned assets comprised 49 percent of the total CGD (see Figure 13). Detailed analysis of ownership share in each eligibility category will be discussed in analysis of each of the corresponding six forms below.

3. Analysis of Form IA 100A

Form IA 100A is filed together with IA 1040 to support the Iowa Capital Gain Deduction claimed for livestock sales. Unlike other sales, multiple sales of livestock can be reported on one form, provided that each line reported a sale of multiple animals with the same description (e.g. ten cows, five horses). Net capital gains from the sales of cattle and horses held for at least 24 months for draft, breeding, dairy or sporting purposes are eligible for the Iowa CGD. In addition, the share of gross income from farming and ranching operations in the tax year must exceed 50 percent. For sales of livestock other than cattle and horses, which may include swine, donkeys, sheep, goats, fur-bearing mammals and other mammals, but not poultry, chickens, turkeys, pigeons, geese, and other birds, fish, frogs, or reptiles, the livestock must be held for at least 12 months and can only be used for breeding purposes. Again, more than half of the taxpayer's gross income must come from ranching and farming activities. For any type of qualifying livestock, if all sales reported by the taxpayer are to a lineal descendant, the requirement regarding the taxpayer's share of gross income from farming and ranching activities can be disregarded. In addition, for any type of qualifying livestock, capital gains from the sale must be reported under the Internal Revenue Code, section 1231, which means the asset is real or depreciable business property held for over a year. Also, the sales cannot be made by a C Corporation.

Overall, 3,262 forms reported a total of $60.7 million of Iowa CGD from the sale of livestock. The average Iowa CGD reported was approximately $18,600 (see Table 2). All forms indicated the gains were reported under IRC section 1231 and no livestock was sold by a C Corporation. However, 13 forms reported sales of livestock not to a lineal descendant where the taxpayer's share of gross income from farming and ranching did not exceed 50 percent; this would indicate those sales are not eligible.

Over 40 percent of Iowa CGD claimed on livestock sales was made by taxpayers aged between 55 and 64 (see Figure 14). Taxpayers aged between 35 and 54 claimed the second highest share of deductions from livestock sales, 30.5 percent. In terms of number of forms, these two age groups also claimed the most frequently, at 34.0 and 34.5 percent of all forms IA 100A filed, respectively (see Figure 15). Taxpayers with AGI less than $0 and above $250,000 claimed the largest shares of deductions from livestock sales, at 23.9 percent and 23.6 percent (see Figure 16). However, taxpayers with AGI between $0 and $50,000 filed the plurality of forms, 41.3 percent (see Figure 17). Almost all livestock sales, 99.8 percent, were reported by an Iowa resident, claiming 96.9 percent of the total Iowa CGD resulting from sales of livestock (see Figure 18 and Figure 19).

For sales of livestock, only 22 forms reported an installment sale of livestock, claiming only 1 percent of the total Iowa CGD claimed under the livestock category, while 3,240 forms reported a regular sale, claiming the other 99 percent of total Iowa CGD (see Table 3). The average Iowa CGD claimed on regular sales of livestock was around $18,600, the same as the average deduction across all livestock sales. However, the average Iowa CGD on installment sales of livestock was slightly less, $16,400. All installment sales were less than 30 years in length of installment, and 64 percent of the sales began between 2014 and 2016 (see Table 5 and Table 6).

In terms of ownership share of the livestock sold, 2,938 forms (90% of IA 100A forms) reported full ownership by the taxpayer, whereas only 324 forms (10% of IA 100A forms) reported partial ownership (see Table 4). Sales of assets fully owned by the taxpayer comprised up to 88 percent of total Iowa CGD claimed, while sales of partially owned assets claimed the remaining 12 percent. Where the taxpayer fully owned the livestock sold, the average gain of the sale of livestock was $18,200. Where the taxpayer did not fully own the asset, the average gain was $22,100.

A total of 3,291 unique livestock sales were reported across all 3,262 IA 100A forms. The number of unique sales exceeded the number of forms filed since multiple sales could be reported on a single form, as explained above. Taxpayer reported 2,693 sales of cattle and horses[2] and 588 sales of other types of breeding livestock (see Table 7). For sales of cattle and horse, 2,102 sales reported the

[2] Vocabularies used to define cattle and horses are: cattle, cow, heifer, bull, calf, horse.

livestock was used for breeding, 478 reported dairy, 65 reported draft, and 3 reported sporting.[3] For sales of other breeding livestock, 88 sales indicated that the livestock was not used for breeding purposes, which according to the eligibility criteria outlined in IAC subrule 40.38(5), implies that the sales were not eligible. Finally, 454 taxpayers also reported 506 sales not meeting the minimum holding period requirement.

4. Analysis of Form IA 100B

Form IA 100B must be included with the IA 1040 to support the Iowa CGD claim on sales of real property used in a farm business. Each separate eligible sale of farmland must be reported on a separate form IA 100B. Net capital gains from the sale of farmland held for at least ten years are eligible for the Iowa CGD, provided that the taxpayer had materially participated in farming that land at least ten years prior to the sale. However, if the taxpayer who farmed the land was retired or disabled at the time of the sale, then the material participation is required for the eight years prior to retirement or the disability. If the taxpayer is the surviving spouse of the farmer who farmed the land, then material participation must be demonstrated for the eight years prior to the farmer's death or retirement.

Taxpayers filed 1,215 IA 100B forms claiming a nonzero amount of Iowa CGD totaling $92.3 million and averaging $76,000 (see Table 2). While there were no forms reporting a sale of assets by a C Corporation, there were 19 forms which reported to have met neither the minimum ownership period nor the minimum holding period of 10 years. These observations were still included in the subsequent analysis.

Most of the total Iowa CGD claimed for the sale of farm land, 63.9 percent, was by taxpayers aged 65 or older (see Figure 14). Taxpayers of this age group filed more than 80 percent of the IA 100B forms (see Figure 15). In terms of adjusted gross income, taxpayers with AGI below $50,000 claimed the largest combined share of total CGD, 71.5 percent, and filed the largest combined share of total forms, 68.1 percent (see Figure 16 and Figure 17). Note that in Iowa, AGI excludes all Social Security benefits and up to $12,000 in pension income. Similar to residents claiming the Iowa CGD on livestock sales, residents claiming deduction on farmland sales also claimed the largest share of total CGD, as well as the largest percentage of total IA 100B forms filed, 98 percent and 98.2 percent respectively (see Figure 18 and Figure 19). In terms of filing status, married taxpayers filing jointly claimed the largest share of total Iowa CGD, 56.6 percent, and also filed the largest share of total forms, 40.3 percent (see Figure 20 and Figure 21). Single taxpayers filed the lowest share of total forms, 28.3 percent, but claimed the second largest share of Iowa CGD, 24.3 percent.

Taxpayers filing 408 forms claimed just above 70 percent of total Iowa CGD for regular farmland sales, while the other 807 forms claimed under 30 percent for installment sales (see Table 3). Consistent with expectactions, the skewed distribution reflects that the average Iowa CGD on regular sales was significantly higher than the average gain from an installment sale of farmland. For regular sales, the average deduction was above $160,000, while for installment sales this number was only $33,000. The length of installment sales reported for farm property is distributed across the full range, from less

[3] Vocabulary used to define each category is as follows: Breeding (breed, breeding, brdg), Dairy (milk, dairy), Draft (farm, draft), Sporting (sport, show).

than 10 to over 40 years (see Table 5). The majority of installment sales, 72 percent, began during or after tax year 2008 (see Table 6).

In terms of ownership share, taxpayers who reported fully owning the assets claimed $80.2 million in Iowa CGD (88% of total Iowa CGD on farmland sales), while taxpayers who reported partially owning the assets claimed only $12.1 million (see Table 4). By count, 1,047 forms reported full ownership, whereas 168 forms reported partial ownership. The average gains between the sale of a fully owned asset and partially owned asset marginally differed by only $4,000; the average gain from the sale of fully owned assets was $76,600, and for the sale of partially owned assets, the average gain was $72,200.

Farmland sales reported on 1,050 forms (86%) listed the taxpayer's acquisition of the asset as by Purchase, and on 155 forms (13%) the reported acquisition method was by Inheritance (see Table 8). The remaining forms reported acquisitions by Gift, Like-kind Exchange, and Other methods. No forms reported acquisitions by Involuntary Conversion; there were eight forms that did not indicate any method of how the asset was acquired.

Form IA 100B asks the taxpayer to provide information on the land manager's name and compensation, the federal forms and/or schedules where the taxpayer reported farm income, and the number of acres farmed for each of the 10 years prior to the sale of the farmland. However, in the event that the taxpayer has a disability, receives Old-Age Social Security benefits, or is the surviving spouse of a deceased farmer, the taxpayer can opt to report only 8 years prior to the start date of any three events above. Among the 1,215 forms, taxpayers checked "Yes" for at least one of the three events on 838 forms, which means that they were qualified, but not obligated, to provide information for only 8 tax years.

In the following analysis of farmland sales, the first and last years of the 10-year period prior to the sale of farmland are studied. Where the taxpayer was qualified to provide information for only 8 tax years, if the taxpayer chose to provide 10 years prior to the sale, then the first year would be the first year of that 10-year period, and the last year would be the 10th year of that period; if the taxpayer provided 8 tax years, the first year would be the first year of this 8-year period, while the last year is the 8th year. Only farmland sales providing sufficient data points were kept; the "sufficient" condition restricts the dataset to only observations with either a minimum of 10 years or a minimum of 8 years.[4] The resulting dataset contains 1,007 observations. Between the first year and the last year of the period examined prior to the sale (or the period prior to the date of retirement, disability or death), the number of acres personally farmed by the taxpayer decreased from 123,900 acres to 113,100, or from 78.2 to 71.4 percent of the total acres reported (see Figure 22). On the other hand, the number of acres of farmland leased for cash rent increased from 18,800 acres (11.9%) to 27,600 acres (17.4%), and the number of farmland acres under crop share increased from 7,100 (4.5%) to 8,600 acres (5.4%) (see Figure 22). Intuitively, this result can be interpreted as taxpayers becoming less directly involved with farming activities nearing the selling date.

5. Analysis of Form IA 100C

[4] Observations were omitted if there were typos or other syntax errors in the tax years provided. For instance, if the taxpayer correctly reported 10 years prior to the sale, but last year of the period is "2106", the observation was omitted.

Form IA 100C must be included with the IA 1040 to support the taxpayer's claim on the Iowa CGD for a sale of real property used in a non-farm business. Each sale must be reported on a separate form. Net capital gains are eligible for the deduction to the extent that the taxpayer has held the asset for ten or more years and has materially participated in the business associated with the property for at least ten years.

Taxpayers claimed a total of $68.7 million on 928 IA 100C forms, including only forms with a nonzero deduction (see Table 2). The average Iowa CGD was $74,100. There were 10 forms in which neither the minimum ownership period nor the minimum holding period was met; however, these observations were included in the following analyses for completeness.

The distribution of total CGD and number of forms filed for sales of real property in a non-farm business by age resembled that of farmland sales. Specifically, taxpayers aged 65 and above claimed the largest share of total deduction, 64.2 percent, and filed the most IA 100C forms, 58.6 percent (see Figure 14 and Figure 15). Taxpayers with AGI less than $0 and those with AGI between $100,000 and $250,000 claimed the largest shares of total Iowa CGD, 27.2 and 20.1 percent respectively (see Figure 16). However, by count, the latter group filed the third most number of IA 100C forms, 19.9 percent, while the former group filed the least number of forms IA 100C, only 7.0 percent (see Figure 17). The distribution of Iowa CGD and number of forms for sales of non-farm property by residence status differed from all other eligibility categories with nonresidents claiming 21.1 percent of total Iowa CGD and filing 6 percent of all IA 100C forms (see Figure 18 and Figure 19). These shares were significantly higher than all other categories except for business sales.

The numbers of installment sales and regular sales reported were about evenly split: 486 forms reported a regular sale, while 442 reported an installment sale (see Table 3). However, the total amount of Iowa CGD claimed on regular sales of non-farm property comprised 86 percent of the total deduction, reflecting the much higher average gain from a regular asset sale of $121,400, whereas the average gain from an installment sale was only $22,000. No installment sales exceeded 40 years in length (see Table 5). Almost 50 percent of all installment sales began between 2014 and 2016 (see Table 6).

Taxpayers reported full ownership on 685 forms, accounting for 77 percent of the total Iowa CGD on sales of non-farm property (see Table 4). On average, each sale of fully owned assets in a non-farm business had a gain of $77,200. For partially owned assets, average Iowa CGD across 243 IA 100C forms was $65,100.

Most forms, 571 or 62 percent, reported the business organization type where the sale of assets originated as a Sole Proprietorship (see Figure 23). The next most common organization response was Other, indicated on 128 forms, with common descriptions of "Rental" and "Individual". The most prevalent method of acquiring the asset sold was by Purchase, reported across 92 percent of all IA 100C forms (see Table 8).

In terms of material participation, taxpayers must satisfy at least one material participation test for each of the ten years prior to the sale in order for the asset sale to be eligible for the Iowa CGD or satisfy Test 6 for at least three years. Test 2 was by far the most common option, checked by 65 percent of taxpayers filing IA 100C forms (see Figure 24). While 95 percent of the forms indicated satisfaction of at least one material participation test, 43 forms reported to have satisfied none (see Figure 25).

6. Analysis of Form IA 100D

Taxpayers claiming the Iowa CGD on sales of timber must include form IA 100D with their IA 1040. Each sale of timber must be reported on a separate IA 100D. Sales of timber held by the taxpayer for at least one year are eligible for the Iowa CGD. The gain from the sale of timber must be reported under the Internal Revenue Code, section 1231, which means the asset is real or depreciable business property held for over a year.

There were only two forms reporting a nonzero amount of the Iowa CGD that indicated the holding period and ownership period to be less than one year. However, these observations were included in the subsequent analyses for completeness. Taxpayers filed a total of 424 IA 100D forms reporting $6.4 million of Iowa CGD (see Table 2). The average Iowa CGD claimed on form IA 100D was $15,200.

The distribution of Iowa CGD for timber sales by age resembled that of farmland and non-farm property sales (see Figure 14). Taxpayers aged 65 or older claimed the largest share, 62.3 percent. The distribution of the number of IA 100D forms filed also resembled that of farmland and non-farm property sales, but only in terms shape rather than scale. Taxpayers aged 65 or older filed just over half of the IA 100D forms, while taxpayers of the same age group filed more than 80 percent of the IA100B forms (see Figure 15). In terms of AGI, groups with lower shares of total deduction were more discernible. Specifically, the highest income group with AGI above $250,000 claimed the smallest shares of total Iowa CGD (see Figure 16). This group also filed the least number of forms IA 100D, only 2.1 percent (see Figure 17). Finally, 99.1 percent of forms IA 100D were filed by Iowa residents, claiming 99.8 percent of total deduction on timber sales (see Figure 18 and Figure 19).

Under the timber category, only 12 forms out of the total 424 forms reported an installment sale, with 7 forms reporting installment length less than 10 years and beginning between 2014 and 2016 (see Table 3, Table 5 and Table 6). However, both regular and installment sales of this type of asset did not differ significantly in terms of average deduction claimed. Specifically, the average Iowa CGD on installment sales was $19,500, while for regular sales it was around $15,000.

Taxpayers reported full ownership of the timber sold on 326 forms (see Table 4). The share of Iowa CGD from sales of fully owned timber totaled 89 percent, and the average Iowa CGD for sales of these assets was $17,600.

For the timber sale to qualify for capital gain treatment, the intended use of the timber sold must fit under the provisions of the Internal Revenue Code, section 631(a). Among the 424 forms, taxpayers reported on 196 forms (46%) the purchaser's intended use of the timber to be "Lumber"; 100 forms (23%) reported the intended use to be commercial-related, and 23 forms (5%) reported the intended use to be "Logging".[5] There were 10 forms which listed the purchaser's intended use as "Unknown".

Given the frequency of taxpayers reporting to have acquired the timber using the Other category with a description of self-raising in tax year 2015 (see *Review of Capital Gain Deduction and 2015 IA 100*), the Department added a new acquisition category, "Raised". Around 78 percent of all forms IA 100D

[5] Vocabularies used to define this category are: commercial, sale, retail, product.

reported the taxpayer acquired the timber by Purchase, and 14 percent reported acquisition by Raised (see Table 8).

7. Analysis of Form IA 100E

Taxpayers claiming the Iowa CGD on sales of a business must file the IA 100E along with the IA 1040. Each sale of a business must be reported on a separate IA 100E. Net capital gains from the sale of a business are eligible for the Iowa CGD provided that the taxpayer has held the business for ten or more years and has materially participated in the business for at least ten years. In addition to the time and material participation requirements, the taxpayer must also sell substantially all of the tangible personal property or service of the business in order for the sale to be eligible. In other words, the sale of assets of a business must be at least 90 percent of the fair market value of all of the tangible personal property and services of the business on the date of the sale. When the taxpayer has held the business for at least ten years, the taxpayer is not required to have materially participated in the business in the ten years prior to the sale if the business is sold to a lineal descendant. Capital gains from the sale of capital stock or ownership interest in the business are usually not eligible for the Iowa CGD, unless treated as acquisitions of assets for federal income tax purposes, as outlined in the IAC subrule 40.38(8).

Taxpayers filed 466 IA 100E forms totaling $241 million in deductions (see Table 2). The average Iowa CGD claimed was $517,700. Among these 466 forms, 17 forms reported the taxpayer has neither held nor owned the assets for at least ten years. Another four forms reported having met no material participation tests while the sale of assets was not to a lineal descendant.

The largest share of Iowa CGD, 53.8 percent, was claimed by taxpayers aged between 55 and 64 (see Figure 14). However, the plurality of forms, 47.2 percent, were filed by taxpayers aged 65 and above (see Figure 15). In terms of AGI, more than 80 percent of the Iowa CGD was claimed by the highest-income group, although the distribution of forms by AGI was quite uneven among the groups (see Figure 16 and Figure 17). The share of total Iowa CGD on sales of a business by residence status starkly deviated from the trend seen in other eligibility categories. Residents and nonresidents each claimed almost half of the total deductions, despite residents filing nearly 93 percent of the forms (see Figure 18 and Figure 19). This skewed distribution reflects that the average gain from a business sale made by a nonresident was $3.5 million compared to $0.3 million for residents.

Only 167 forms, or 36 percent, reported a regular sale of a business (see Table 3). However, these forms claimed 90 percent of the total deduction across all business sales. Thus, the average deduction claimed on a regular sale of a business was almost $1.3 million. On the other hand, the average gain reported in tax year 2016 from an installment sale of a business was only $83,000. The length of installment was distributed across all ranges, but three-fourths of the installment sales were less than 10 years in length and began during or after tax year 2014 (see Table 5 and Table 6).

Almost three-fourths of the forms reported the taxpayer fully owned the business, where the total Iowa CGD was $48.6 million, or 19 percent (see Table 4). This meant that the average gain on a sale of a fully owned business was much less than the gain on a sale of a partially owned business. In fact, the average deduction for sales of a fully owned business was only $139,500, whereas the average deduction for sales of a partially owned business was $1.6 million.

The plurality of IA 100E forms, 206 or 44 percent, reported the business organization type as S corporation (see Figure 26). The second most common response was Sole Proprietorship, with 162 forms (35%). The most common reported method of acquiring the assets was by Purchase, with 270 forms (58%), and the second most common method was through Founded, with 114 forms (24%) (see Table 8).

In terms of material participation, taxpayers must satisfy at least one of seven material participation tests for each of the ten years prior to the sale or Test 6 for at least three years. By far the most common material participation test satisfied was Test 1, checked across 375 forms, 80 percent (see Figure 27). The next most commonly checked test was Test 5, observed across 233 forms, half of the forms IA 100E filed. The majority of forms IA 100E reported satisfying at least one material participation test, but there were 40 forms, or 9 percent, that reported not having met any tests (see Figure 28). However, 36 forms of these forms reported sales of assets of a business to a lineal descendant, which suggests that the claims were still eligible for the Iowa CGD.

8. Analysis of Form IA 100F

Form IA 100F must be completed with the IA 1040 to support the Iowa CGD claim on sales of employer securities to a qualified Iowa Employer Stock Ownership Plan (ESOP). Each sale to a qualified Iowa ESOP must be reported in a separate IA 100F. To be eligible for the Iowa CGD, the qualified Iowa ESOP must own at least 30 percent of all outstanding employer securities issued by the Iowa corporation after the sale. Taxpayers with an eligible sale of employer securities can exclude 50 percent of the capital gains resulting from the sale from their calculation of net income.

One form reporting a zero amount of the Iowa CGD was omitted from the analysis; across the remaining 6 forms IA 100F, a total of $1.6 million in deduction was reported (see Table 2). Taxpayers between the age of 35 and 54 filed 83.3 percent of all forms (see Figure 15). Half of the forms were filed by taxpayers with AGI above $250,000 (see Figure 17). All forms were filed by a resident. The average Iowa CGD claimed on an IA 100F is approximately $268,200. All sales reported were installment sales (see Table 3). The reported lengths of all installment sales were less than 30 years, and all sales were made between tax years 2014 and 2016 (see Table 5 and Table 6). All forms reported the taxpayer's full ownership of the asset sold (see Table 4).

9. Fiscal Impact of CGD

Ultimately, the impact of the Iowa CGD is a reduction in individual income tax liability for eligible taxpayers. Using the Department's individual income tax micro model, it is estimated that the fiscal impact of this deduction in tax year 2015 was a revenue reduction of $44.6 million. However, the model does not currently allow for an analysis of the fiscal impact by eligibility category.

To estimate this impact, the marginal tax rate for each claimant was calculated. These marginal tax rates were then used to estimate the fiscal impact by eligibility category. Given the amount of deduction, estimated marginal tax rates, and distribution of deduction claims, the simpler methodology for estimating the total revenue foregone in tax year 2015 resulted in $49.8 million, an overestimate compared to the micro model's result by a margin of 12 percent. This reflects the fact that many taxpayers do not face the same tax rate on the entire deduction, thus using only the marginal tax rate levied on the last dollar of the deduction overstates the fiscal impact. However, this still provides a useful approximation of the fiscal impact of the Iowa CGD by eligibility category.

Focusing on the electronic returns for which the eligibility category is readily available, 43 percent of the revenue reduction reflects the deduction for business sales, 21 percent for farmland sales, 17 percent for livestock sales, 16 percent for sales of nonfarm property, and the rest for sales of timber and employer securities to an ESOP (see Figure 29). For tax year 2016, preliminary findings using the simpler methodology suggest the estimated foregone revenue, adjusted for the noted overestimation, was $39.7 million. By the end of the tax year, based on the estimated count of additional claims to be filed in tax year 2016, this impact is estimated to rise to $55.7 million, assuming that the distribution of late-filing taxpayers by income bracket will remain consistent with what was observed in tax year 2015. So far, the majority of revenue reduction reflects the deduction for business sales, 53 percent, while the deduction for sales of farmland, nonfarm property, and livestock comprise 19 percent, 15 percent and 12 percent, respectively (see Figure 30).

Challenges

First, analyses of fields such as farmland sales or livestock sales can be challenging without a unique identifier at the form level. Given the formatting of the questions on the form, responses for these fields were structured differently and thus presented on a separate table. However, the only identifier across this table and the main table is an identifier at the return level. As a result, for taxpayers filing more than one form of the same eligibility category, there is no direct way to match the responses in the separate table with the form on which the particular sale was reported, as the common identifier would be similar for all sales originating from the same taxpayer. For married couples filing separately on the same return, it can be even more challenging since both spouses can report the same sales, and on the separate table there is no way to distinguish between whom the sale was reported. Second, there were typos and ambiguous abbreviations in the reporting of farmland sales, livestock sales, and other owners. This made extracting data and counting less efficient. Third, there were eight cases of inconsistent reporting between the IA 100 forms and the IA 1040, where taxpayers reported a zero/blank amount of the Iowa CGD in the IA 1040, but still claimed a nonzero amount in the IA 100 form. These observations were omitted from the analysis since they did not significantly impact the analysis.

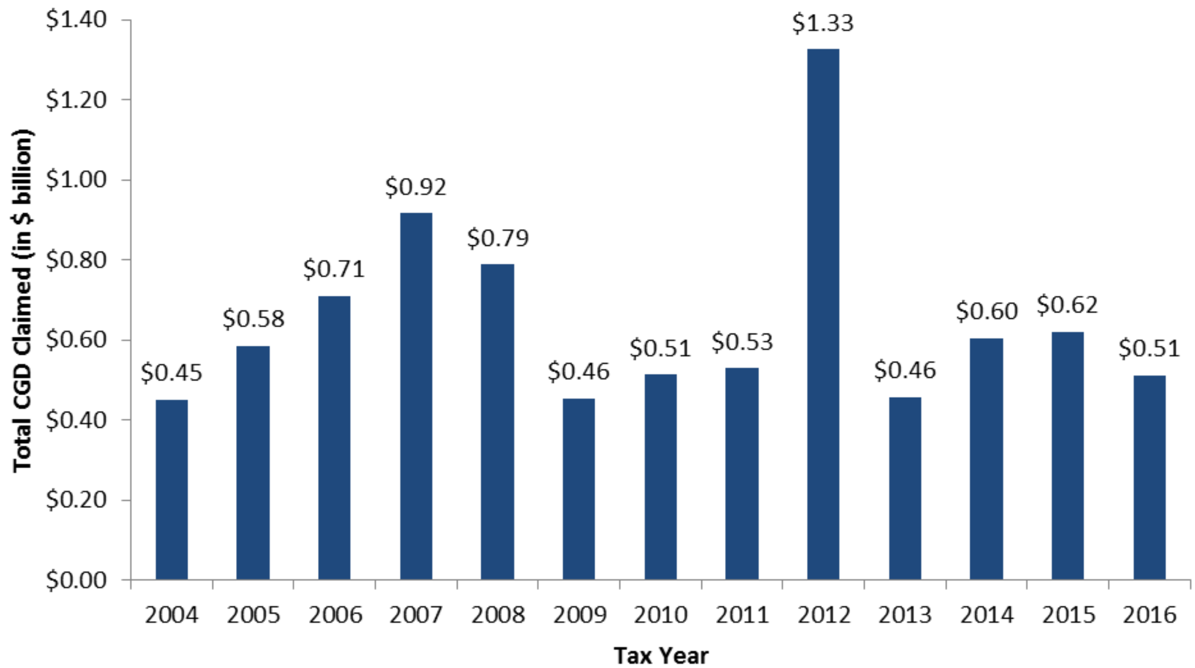
Conclusion

The analysis confirmed that claims to the Iowa CGD dropped in tax year 2015, coinciding with the Department's introduction of the IA 100. In tax year 2016, this preliminary analysis shows that the number of forms IA 100A-F has further decreased from tax year 2015.This could indicate a better understanding of taxpayers about the eligibility of their asset sales for the Iowa CGD. The distribution of sales by eligibility category mostly resembles that of tax year 2015: livestock were still the most common eligibility category where the Iowa CGD was claimed, and deduction on sales of business accounted for the largest share of total Iowa CGD.

Analyses of the six forms and overall trend of the Iowa CGD have contributed to the Department's understanding of the claimants in a number of ways. Analysis of taxpayer responses about the eligibility requirements for each category reveals some concerns about the way taxpayers reported their claims, in terms of the minimum holding requirement, material participation, and ownership share. Findings from this analysis helped the Department make data-driven decisions behind the modifications to the six CGD forms for tax year 2017. In addition, analysis on the demographics of claimants over time helped to identify the characteristics of the taxpayers who have stopped making Iowa CGD claims, which is useful when estimating the fiscal impact of the Iowa CGD provision in future tax years.

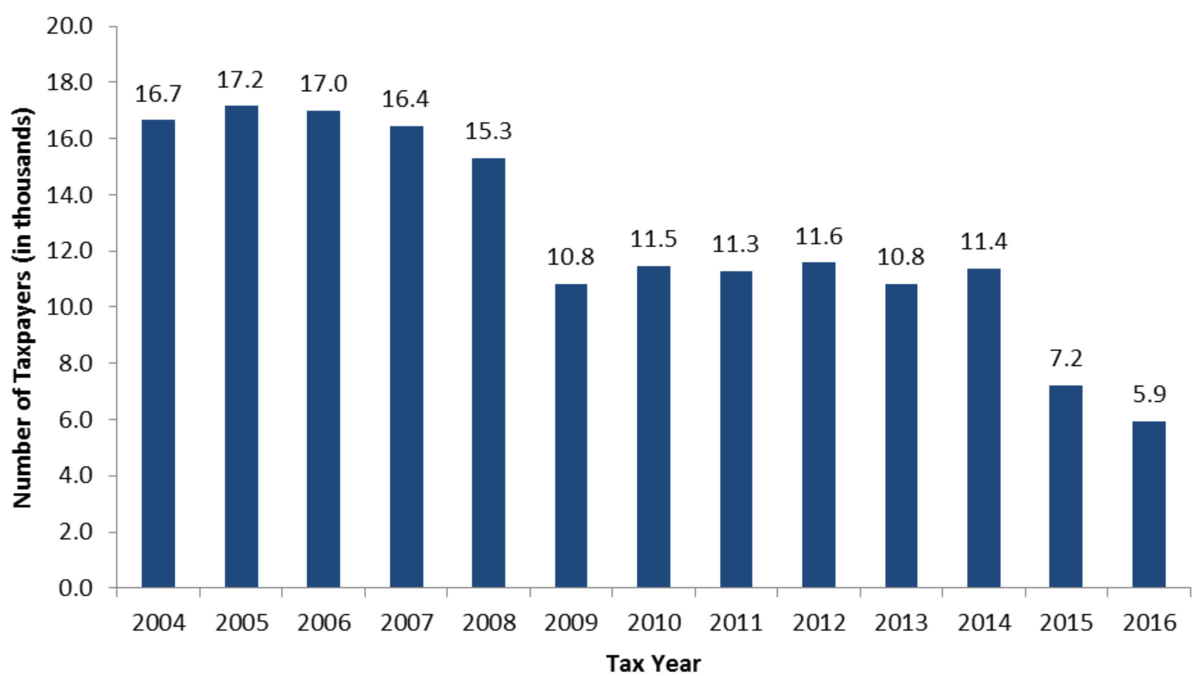
The introduction of the new forms IA 100A-F in tax year 2016 offered the Department great insights into the eligibility of various assets sales for the Iowa Capital Gain Deduction. The forms have also served as an effective educational tool for taxpayers claiming the deduction, as the majority of taxpayers reported sales that satisfied all requirements for eligibility.

Figure 1. Total Amount of Iowa Capital Gain Deduction Claimed by Tax Year



Sources: Individual Income Tax Returns. Data for Tax Year 2016 is preliminary.

Figure 2. Number of Taxpayers Claiming Iowa Capital Gain Deduction by Tax Year



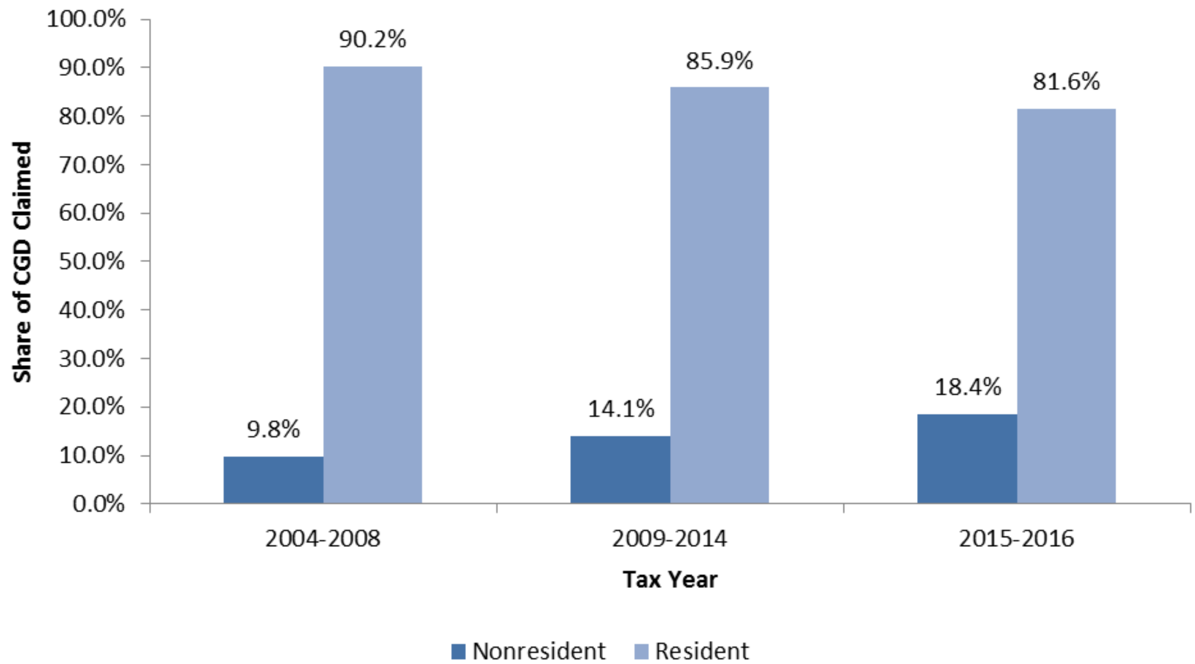
Sources: Individual Income Tax Returns. Data for Tax Year 2016 is preliminary.

Table 1. Distribution of Iowa Capital Gain Deduction by Tax Year

Period	Mean	10th Pctl	Median	90th Pctl
TY 2004 - TY 2008	$41,780	$450	$5,368	$60,684
TY 2009 - TY 2014	$57,645	$506	$7,235	$77,970
TY 2015 - TY 2016	$86,006	$1,764	$13,899	$120,162

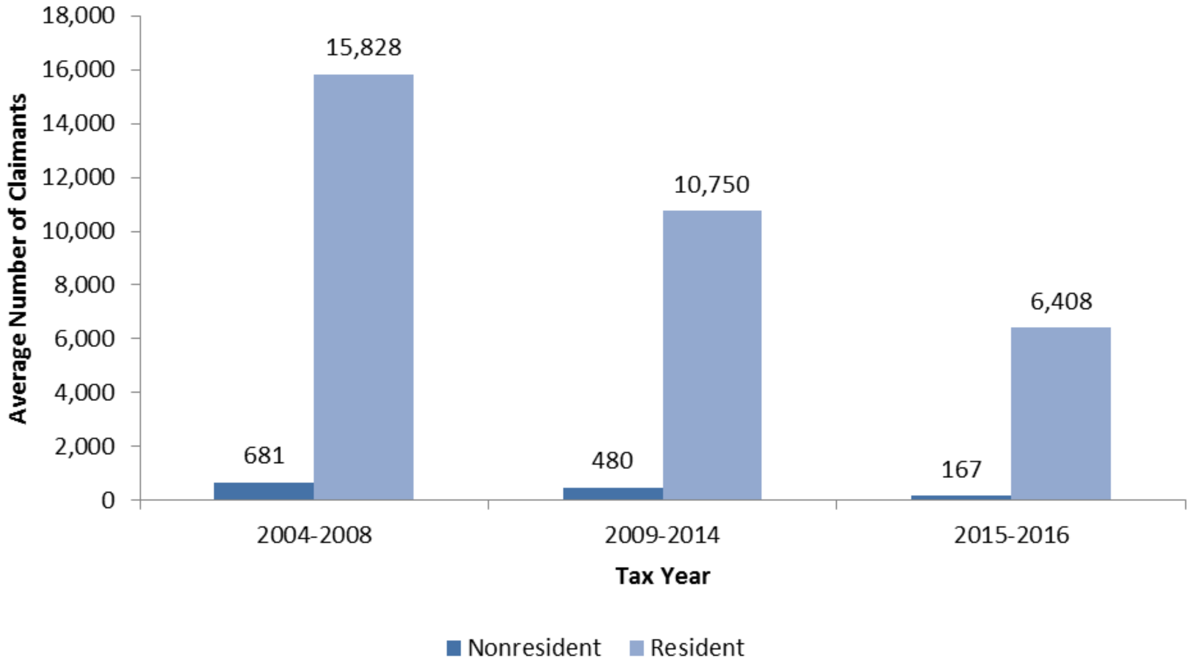
Sources: Individual Income Tax Returns. Data for Tax Year 2016 is preliminary.

Figure 3. Share of Iowa CGD Claimed by Residence Status, 2004-2008 vs. 2009-2014 vs. 2015-2016



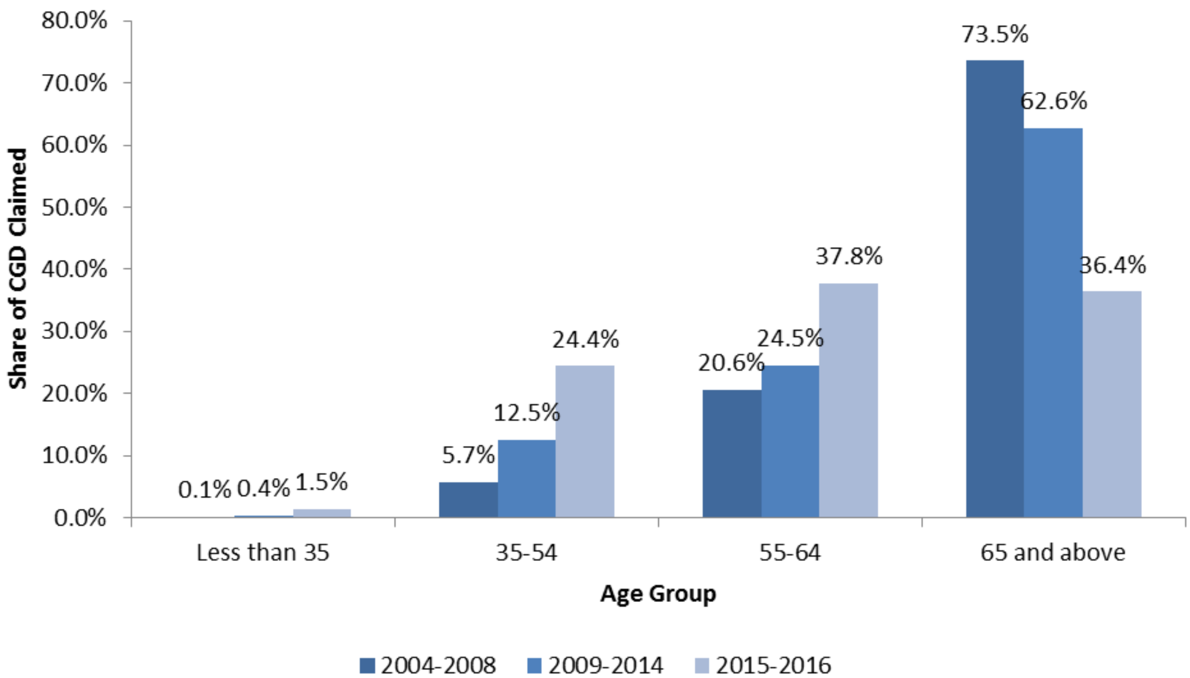
Sources: Individual Income Tax Returns. Data for Tax Year 2016 is preliminary.

Figure 4. Average Number of Iowa CGD Claimants by Residence Status, 2004-2008 vs. 2009-2014 vs. 2015-2016



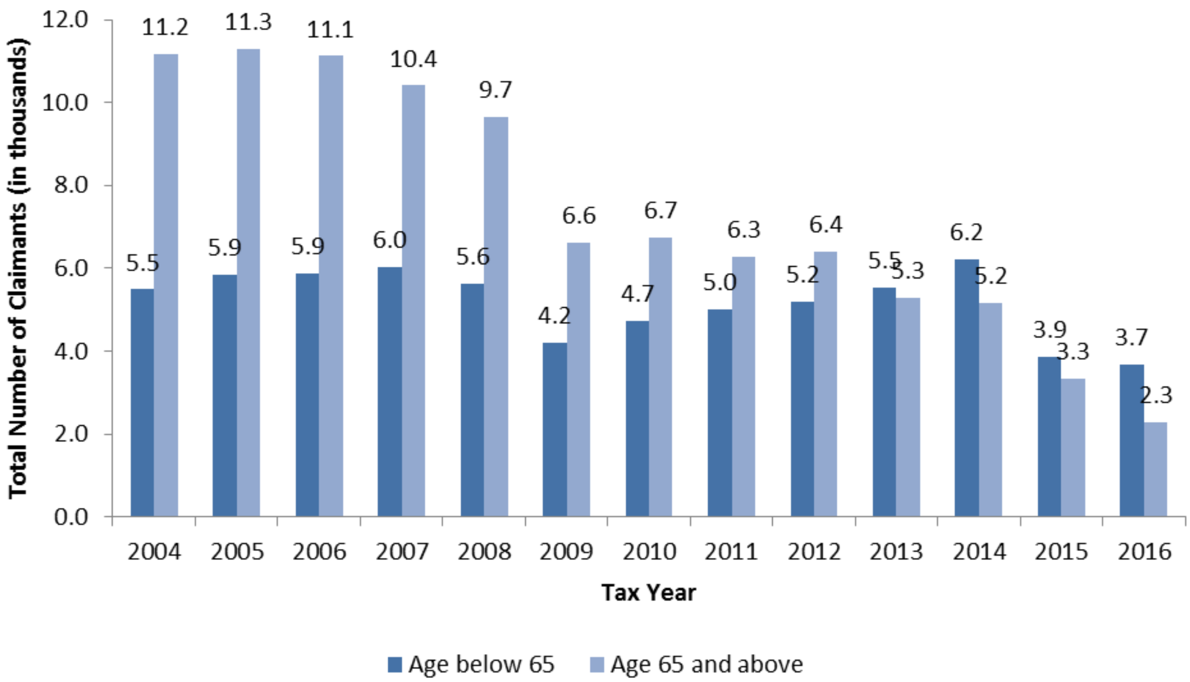
Sources: Individual Income Tax Returns. Data for Tax Year 2016 is preliminary.

Figure 5. Share of Iowa CGD Claimed by Age, 2004-2008 vs. 2009-2014 vs. 2015-2016



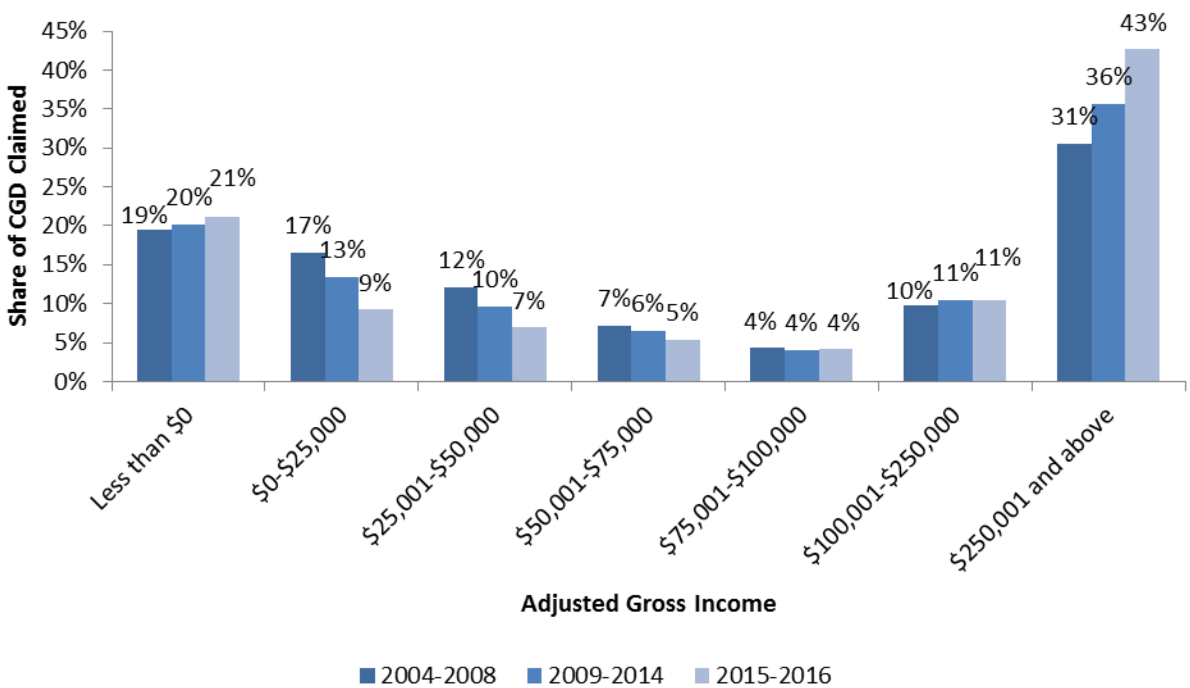
Sources: Individual Income Tax Returns. Data for Tax Year 2016 is preliminary.

Figure 6. Number of Iowa CGD Claimants by Age, by Tax Year



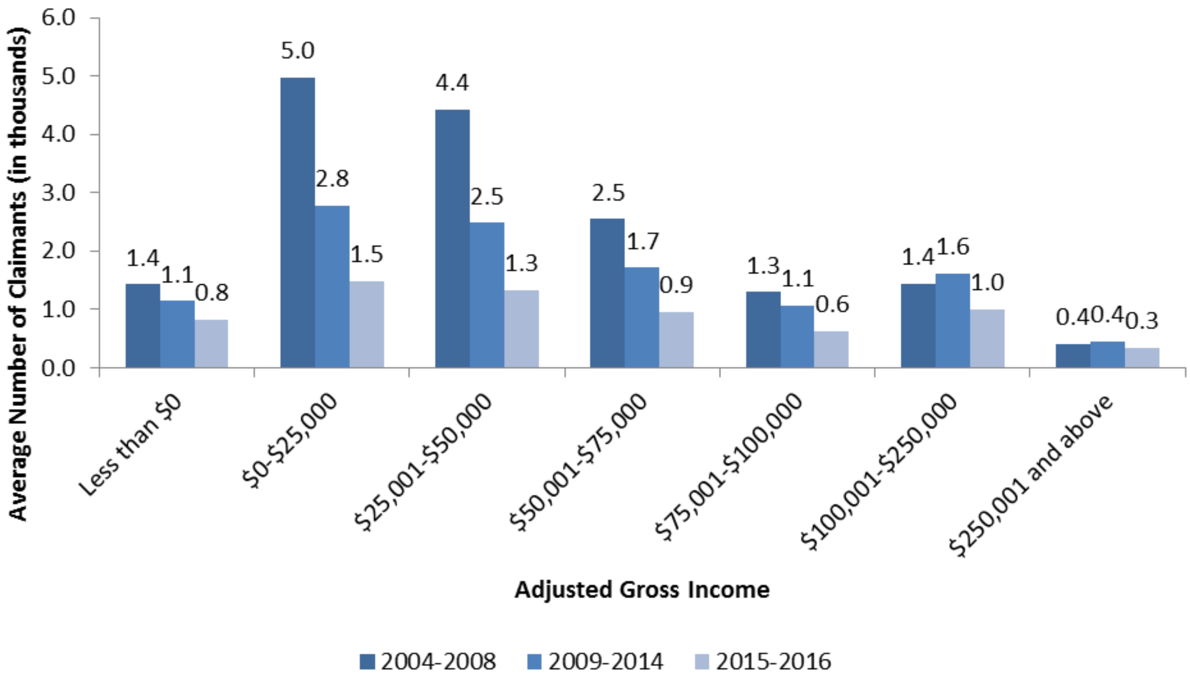
Sources: Individual Income Tax Returns.

Figure 7. Share of Iowa CGD Claimed by Adjusted Gross Income, 2004-2008 vs. 2009-2014 vs. 2015-2016



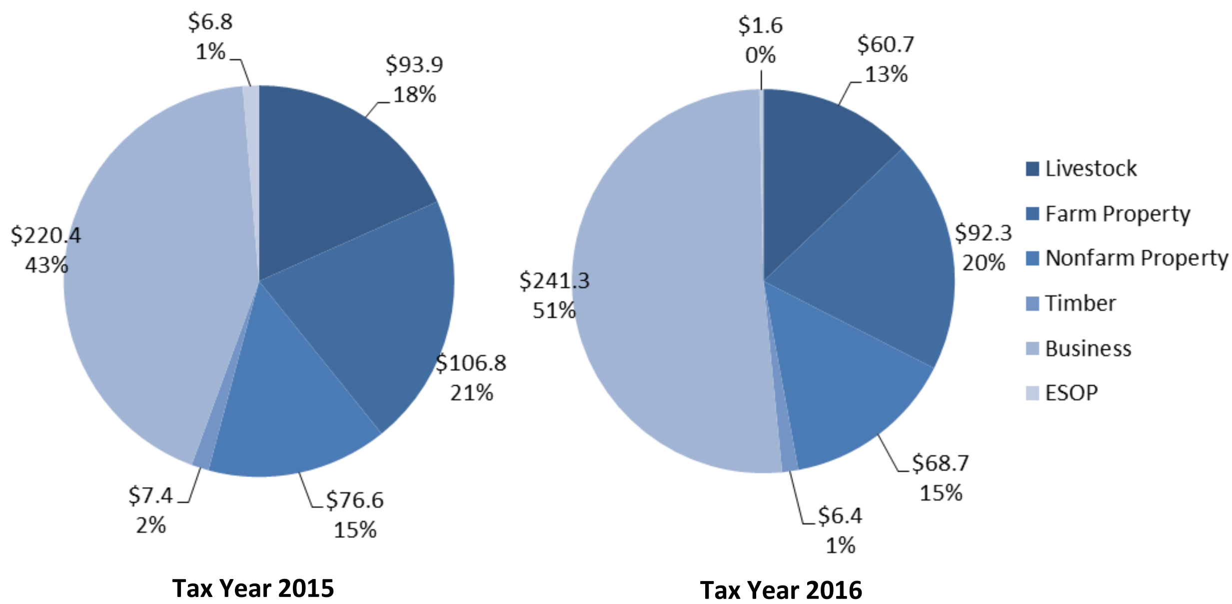
Sources: Individual Income Tax Returns. Data for Tax Year 2016 is preliminary.

Figure 8. Average Number of Iowa CGD Claimants by AGI, 2004-2008 vs. 2009-2014 vs. 2015-2016



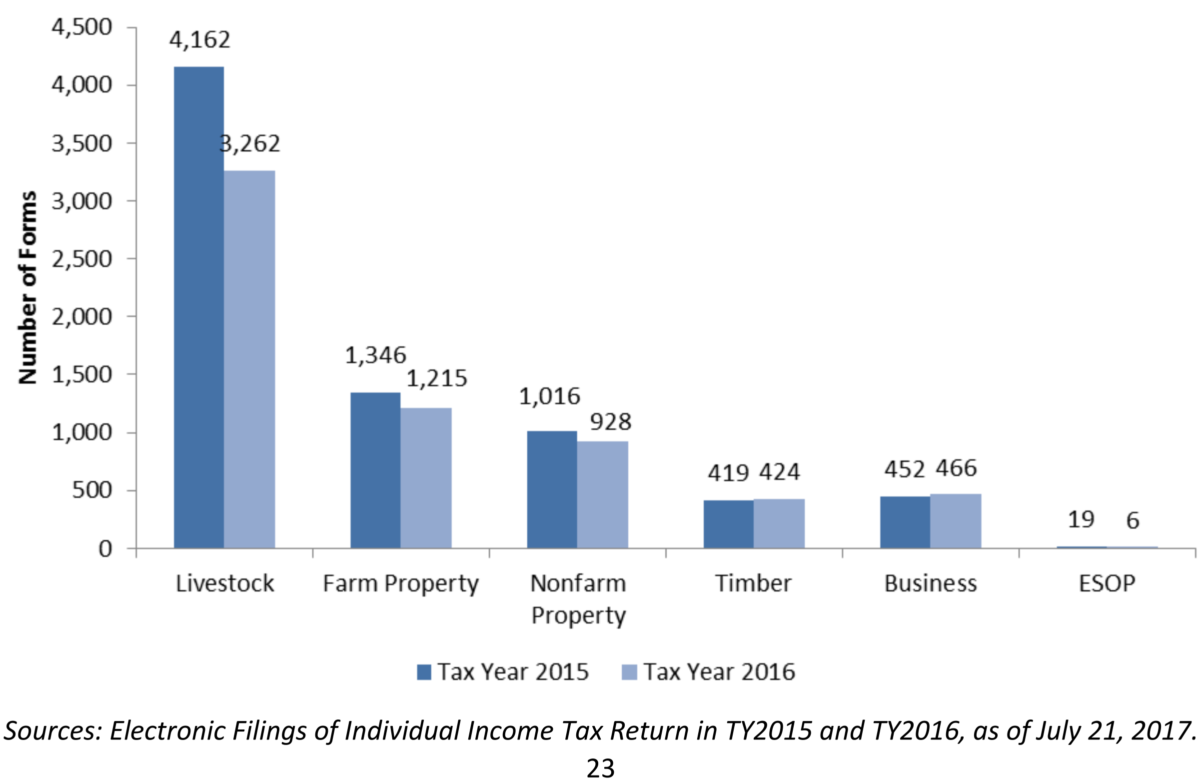
Sources: Individual Income Tax Returns. Data for Tax Year 2016 is preliminary.

Figure 9. Distribution of Iowa CGD by Eligibility Category, Tax Years 2015 and 2016



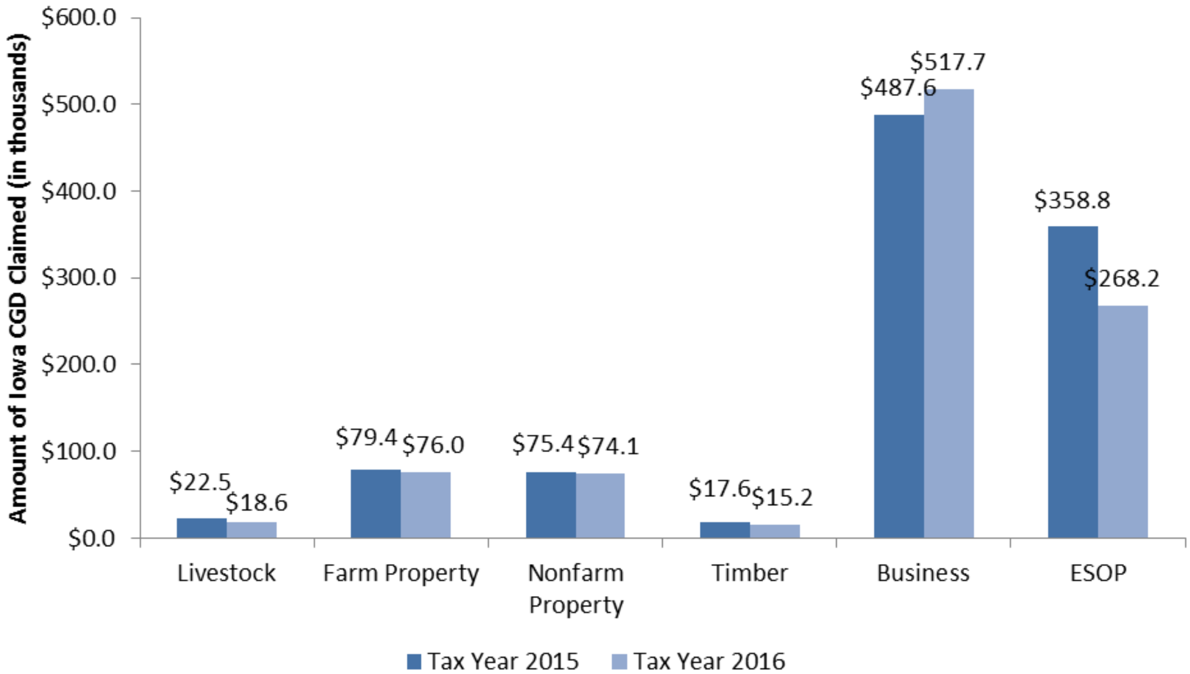
Sources: Electronic Filings of Individual Income Tax Return in TY2015 and TY2016, as of July 21, 2017.
Note: Total Amount of Iowa CGD is in Million.

Figure 10. Number of Iowa CGD Forms by Eligibility Category, Tax Years 2015 and 2016



Sources: Electronic Filings of Individual Income Tax Return in TY2015 and TY2016, as of July 21, 2017.

Figure 11. Average Amount of Iowa CGD Claimed by Eligibility Category, Tax Years 2015 and 2016



Sources: Electronic Filings of Individual Income Tax Return inTY2015 and TY2016, as of July 21, 2017.

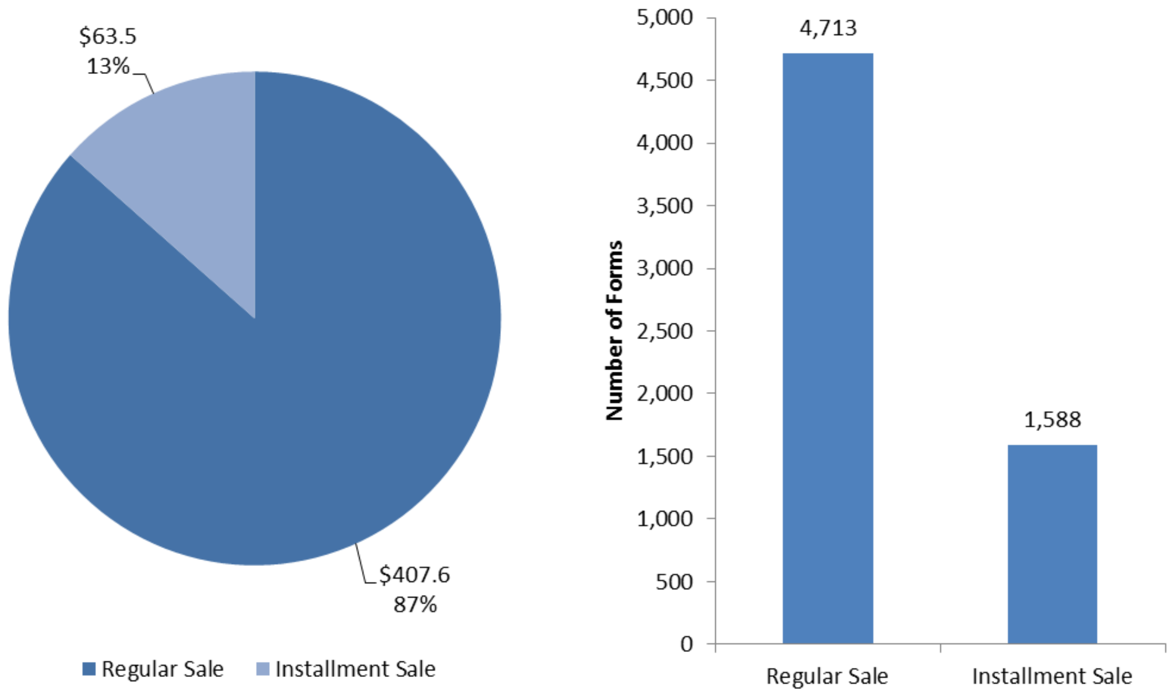
Table 2. Distribution of Iowa CGD by Eligibility Category, Tax Year 2016

Category	Avg CGD	Total CGD	No. of Forms	10th Pctl	Median	90th Pctl
Livestock	$18,610	$60,705,439	3,262	$872	$6,380	$36,039
Farm Property	$75,992	$92,330,012	1,215	$2,882	$19,573	$226,593
Nonfarm Property	$74,054	$68,721,748	928	$1,251	$17,053	$151,605
Timber	$15,174	$6,433,852	424	$1,379	$8,653	$32,675
Business	$517,741	$241,267,265	466	$4,500	$40,666	$415,716
ESOP	$268,213	$1,609,277	6	-	-	-

Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Note: Values at the 10th percentile, median and 90th percentile are omitted to ensure confidentiality.

Figure 12. Distribution between Regular and Installment Sales, Tax Year 2016



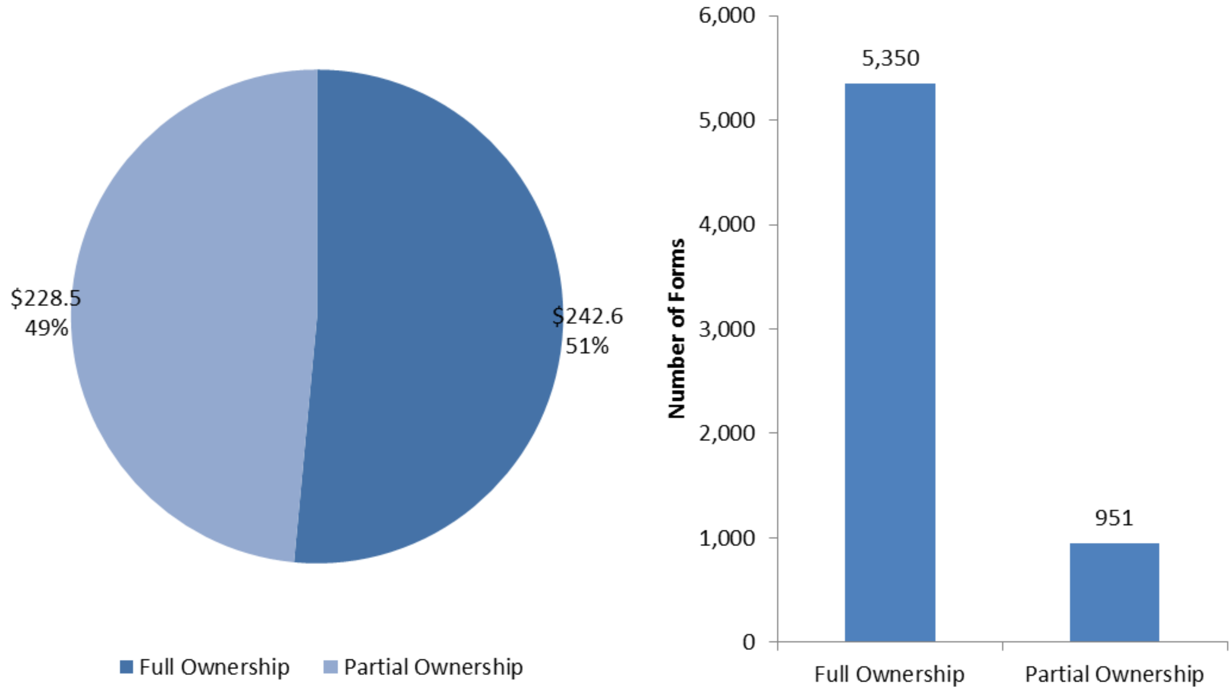
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.
Note: Total Amount of Iowa CGD is in Million.

Table 3. Descriptive Statistics by Regular vs. Installment Sales and Eligibility Category, Tax Year 2016

	Regular Sales			Installment Sales		
Eligibility Category	**Total CGD**	**No. of Forms**	**Average CGD**	**Total CGD**	**No. of Forms**	**Average CGD**
Livestock	$60,344,703	3,240	$18,625	$360,736	22	$16,397
Farm Property	$65,574,195	408	$160,721	$26,755,817	807	$33,155
Nonfarm Property	$59,003,352	486	$121,406	$9,718,396	442	$21,987
Timber	$6,199,728	412	$15,048	$234,124	12	$19,510
Business	$216,457,730	167	$1,296,154	$24,809,535	299	$82,975
ESOP	-	-	-	$1,609,277	6	$268,213

Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 13. Distribution of Iowa CGD by Ownership Share of Property Sold, Tax Year 2016



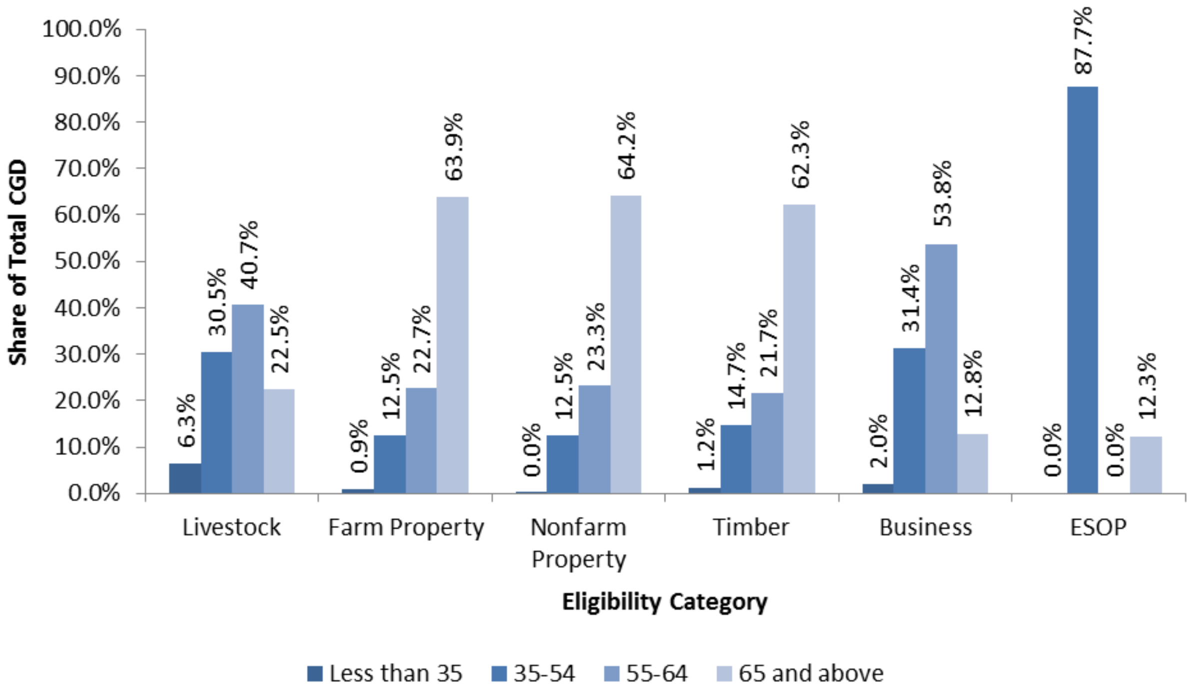
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.
Note: Total Amount of Iowa CGD is in Million.

Table 4. Descriptive Statistics by Ownership Share and Eligibility Category, Tax Year 2016

	Full Ownership			Partial Ownership		
Eligibility Category	**Total CGD**	**No. of Forms**	**Average CGD**	**Total CGD**	**No. of Forms**	**Average CGD**
Livestock	$53,560,731	2,938	$18,230	$7,144,708	324	$22,052
Farm Property	$80,207,853	1,047	$76,607	$12,122,159	168	$72,156
Nonfarm Property	$52,894,278	685	$77,218	$15,827,470	243	$65,134
Timber	$5,736,149	326	$17,596	$697,703	98	$7,119
Business	$48,562,641	348	$139,548	$192,704,624	118	$1,633,090
ESOP	$1,609,277	6	$268,213	-	-	-

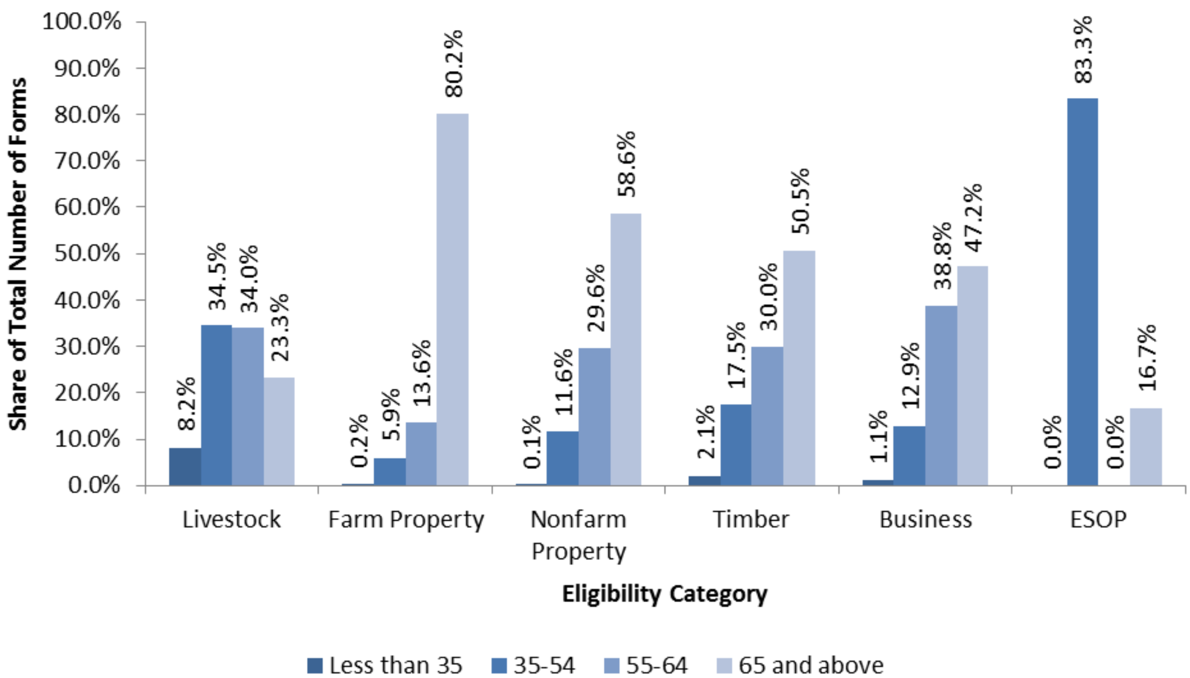
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 14. Distribution of Iowa CGD by Age Group and Eligibility Category, Tax Year 2016



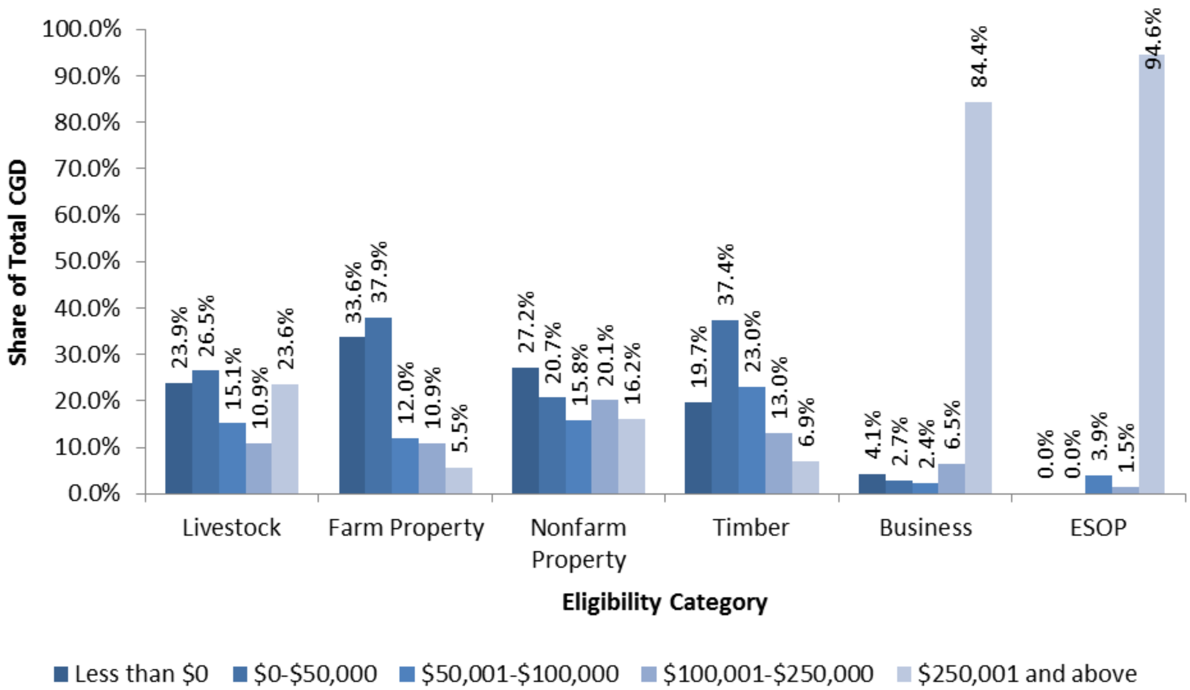
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 15. Number of Forms Reporting Iowa CGD by Age Group and Eligibility Category, Tax Year 2016



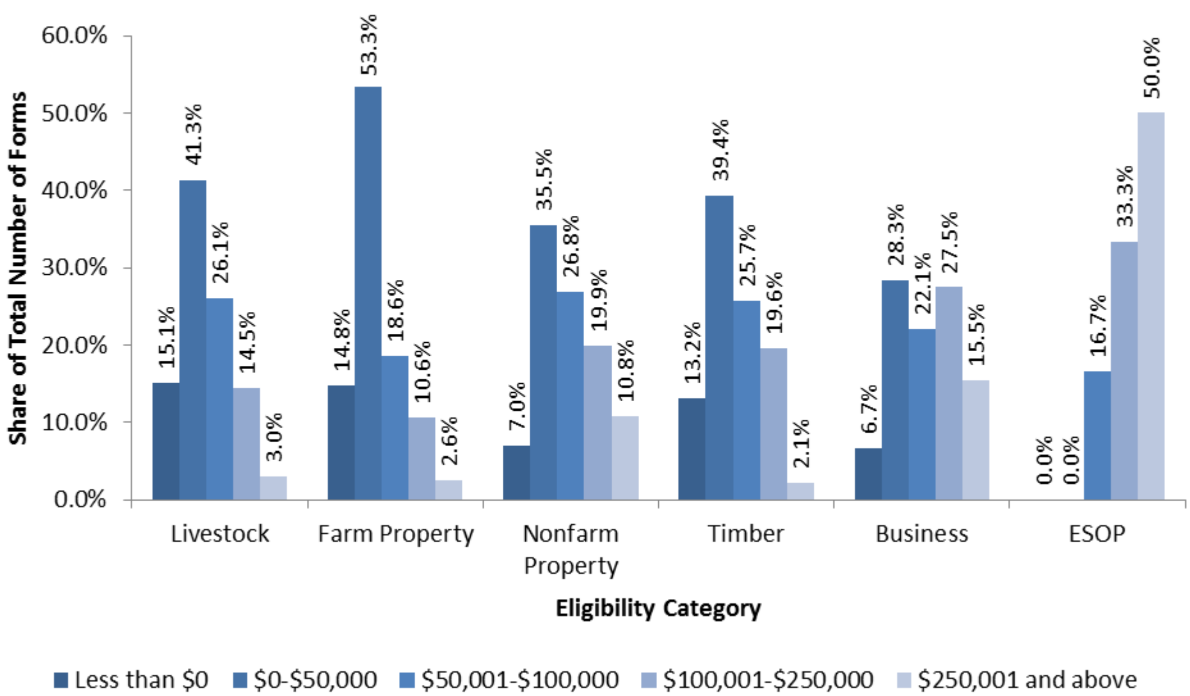
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 16. Distribution of Iowa CGD by AGI and Eligibility Category, Tax Year 2016



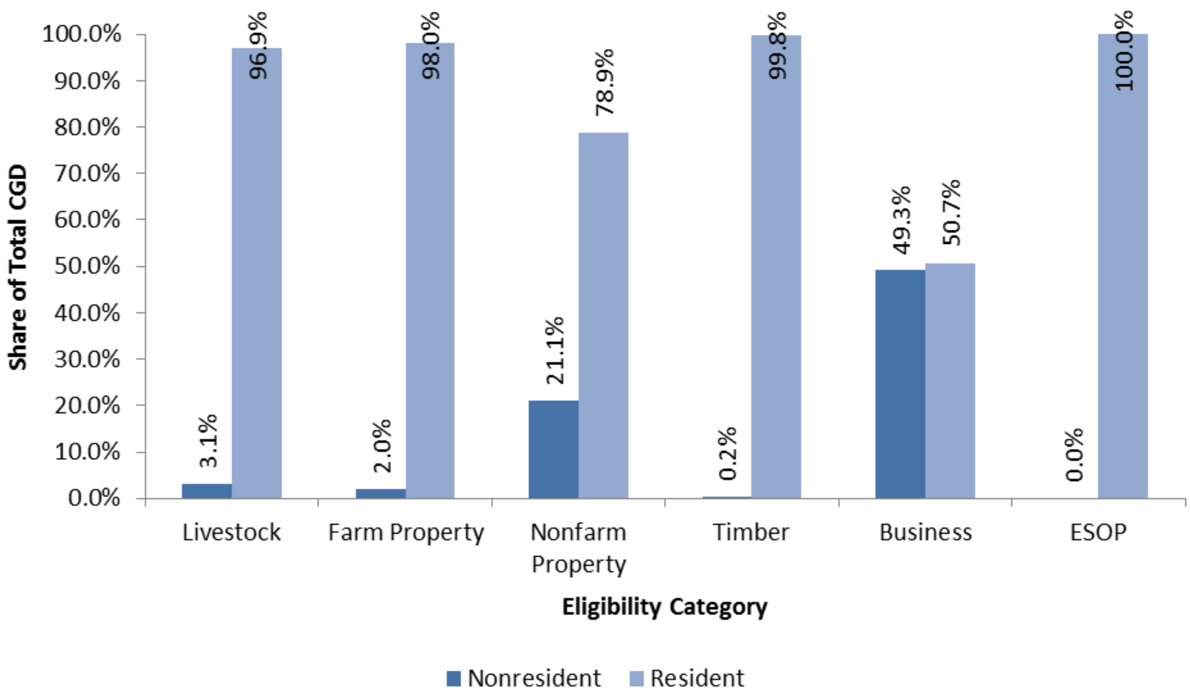
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 17. Number of Forms Reporting Iowa CGD by AGI and Eligibility Category, Tax Year 2016



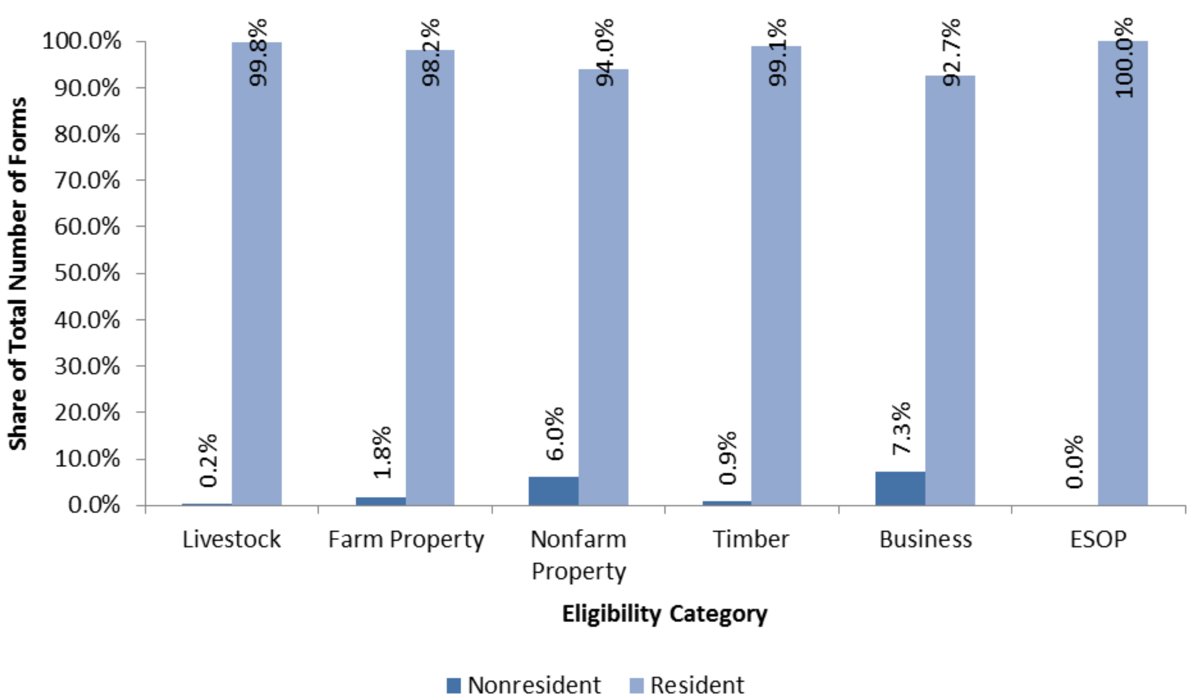
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 18. Distribution of Iowa CGD by Residence Status and Eligibility Category, Tax Year 2016



Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 19. Number of Forms Reporting Iowa CGD by Residence Status and Eligibility Category, Tax Year 2016



Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Table 5. Distribution of Iowa CGD from Installment Sales, by Length of Installment and Eligibility Category, Tax Year 2016

Eligibility Category	Installment Length (Years)				
	0-9	10-19	20-29	30-39	40 and above
Livestock	13	3	6	0	0
Farm Property	223	316	196	59	13
Nonfarm Property	178	176	52	35	0
Timber	7	3	1	1	0
Business	224	60	10	3	1
ESOP	1	4	1	0	0

Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Table 6. Distribution of Iowa CGD from Installment Sales, by Installment Start Year and Eligibility Category, Tax Year 2016

Eligibility Category	Installment Start Year			
	Prior to 2008	2008-2010	2011-2013	2014-2016
Livestock	1	1	6	14
Farm Property	229	116	202	260
Nonfarm Property	73	62	90	216
Timber	0	1	4	7
Business	19	14	41	225
ESOP	0	0	0	6

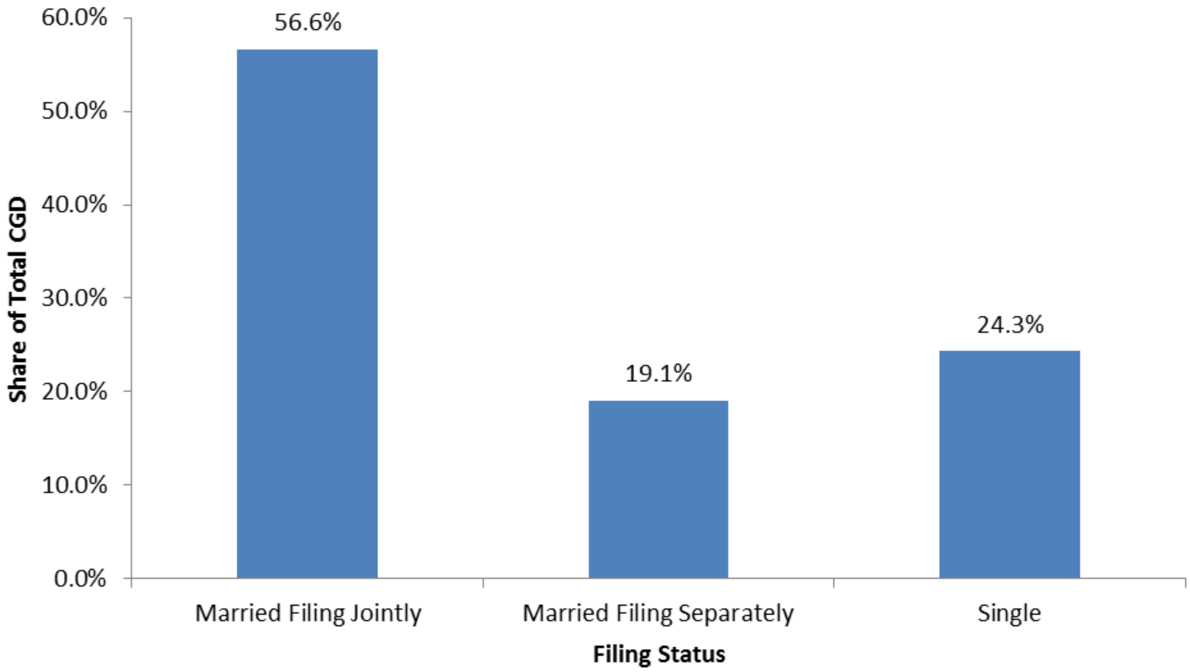
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Table 7. Distribution of Livestock Sales by Type and Use of Livestock, Tax Year 2016

All Sales of Livestock	Sales of Cattle and Horse	Breeding Use	Dairy Use	Draft Use	Sporting Use	Sales of Breeding Livestock	Breeding Use	Other Use
3,291	2,693	2,102	478	65	3	598	510	88

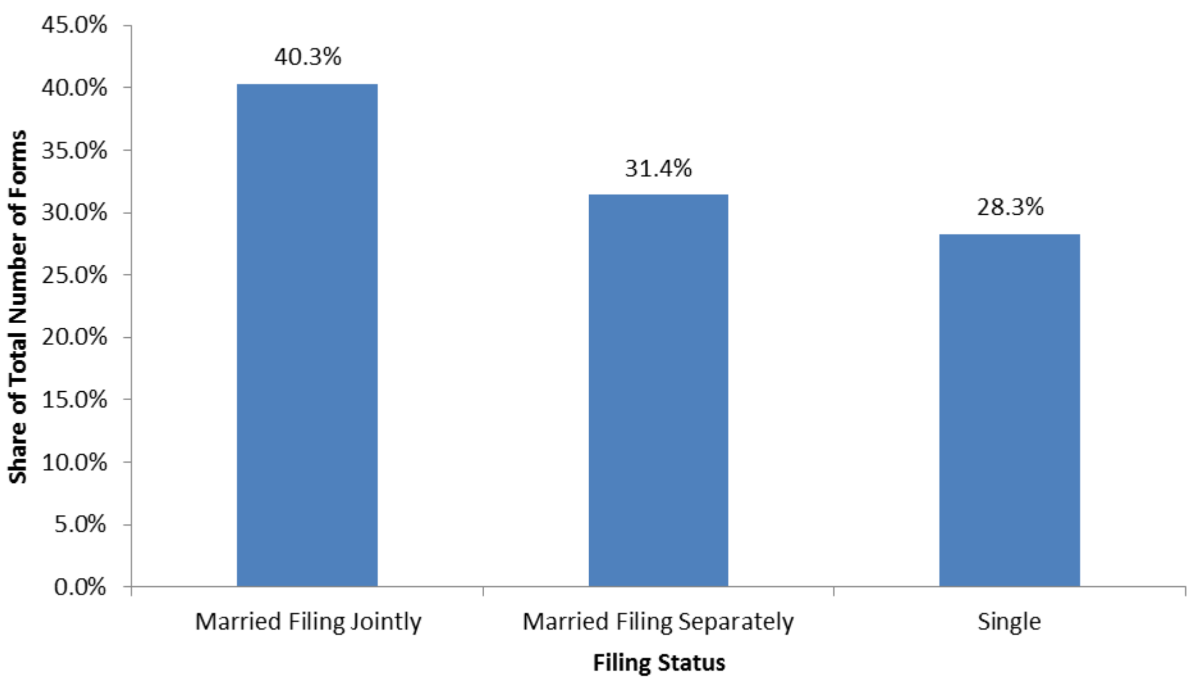
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 20. Distribution of Iowa CGD from Sales of Farmland by Filing Status, Tax Year 2016



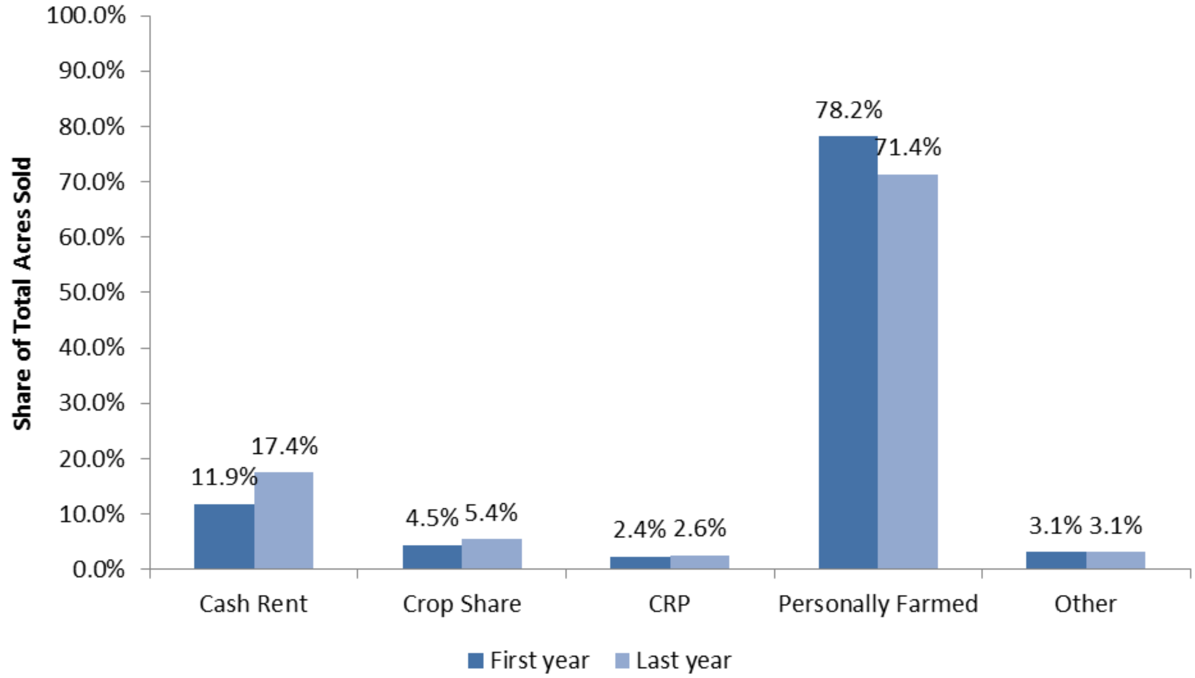
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 21. Number of Forms Reporting Iowa CGD from Sales of Farmland by Filing Status, Tax Year 2016



Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 22. Share of Total Acres Farmed in the First and Last Year of the Reported Period Prior to Sale, Tax Year 2016



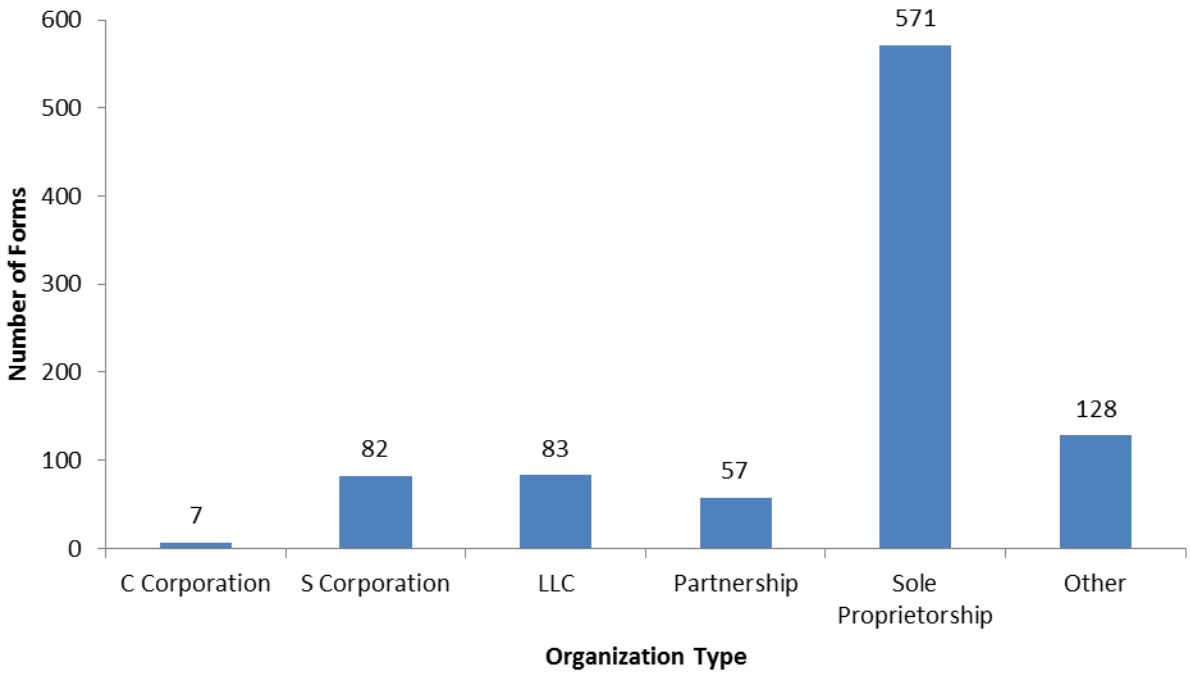
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Table 8. Number of Forms by Method of Acquisition and Eligibility Category, Tax Year 2016

Eligibility Category	Inheritance	Gift	Purchase	Like-kind Exchange	Involuntary Conversion	Raised or Founded	Other
Farm Property	155	16	1,050	9	0	-	53
Nonfarm Property	29	1	854	5	2	-	39
Timber	29	10	330	1	0	59	19
Business	20	6	270	1	1	114	78

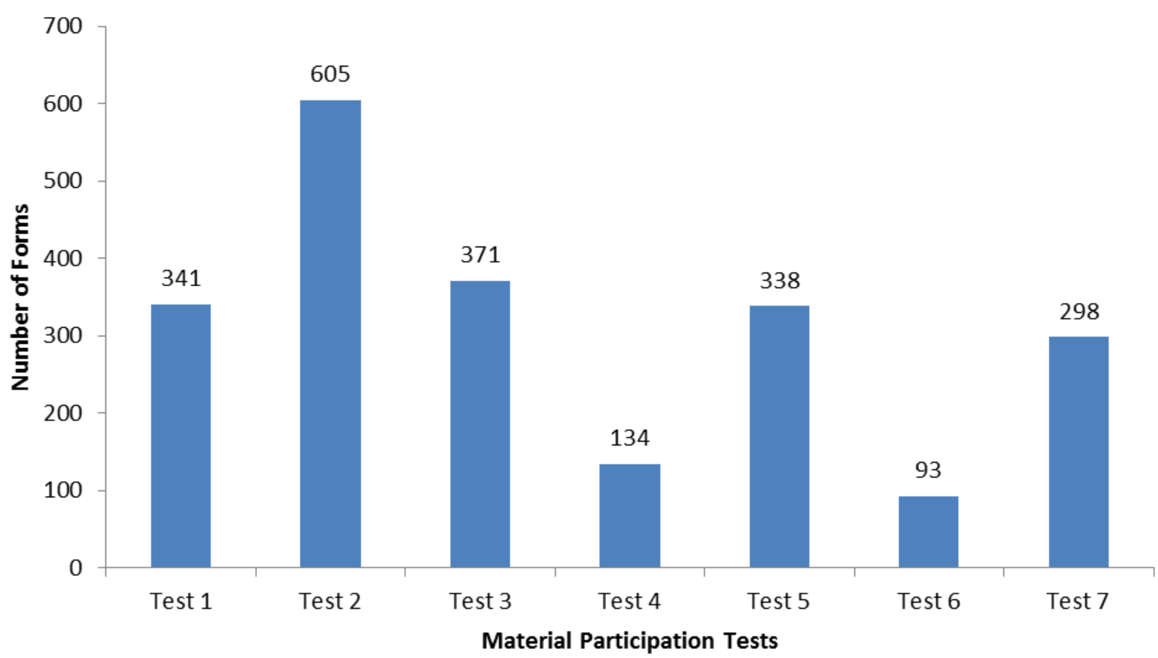
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 23. Organization Types Reported by Taxpayers Claiming the Iowa CGD on Sales of Real Property Used in a Nonfarm Business, Tax Year 2016



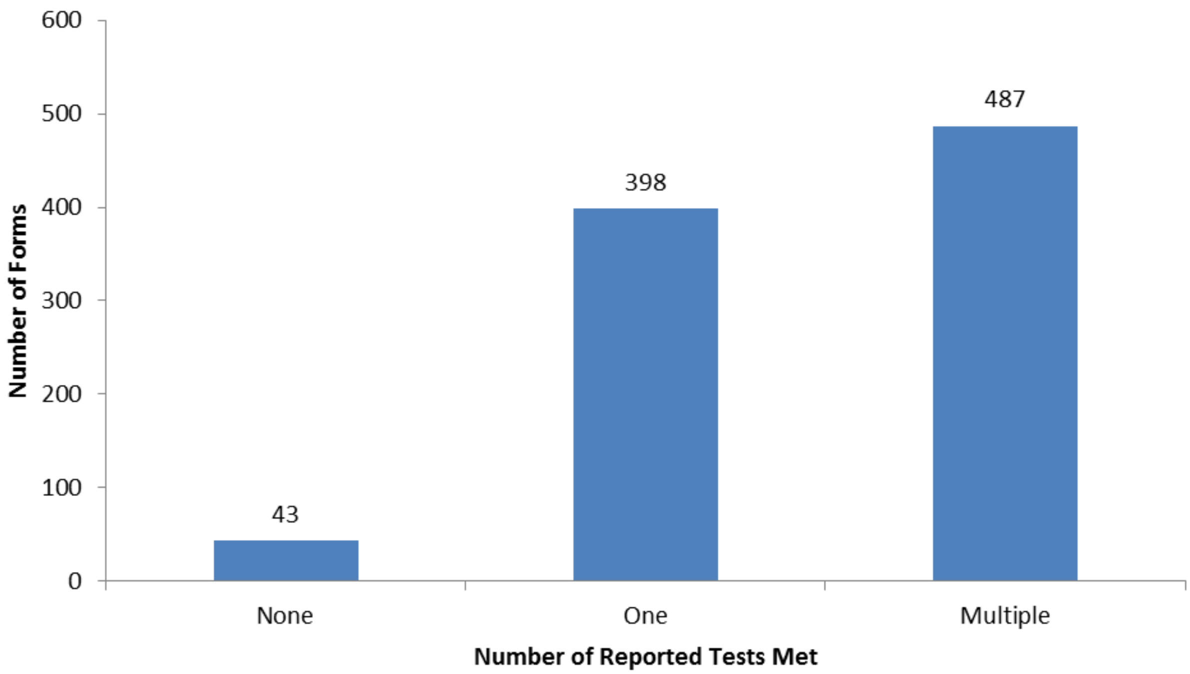
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 24. Material Participation Tests Checked For Reporting Sales of Real Property Used in a Nonfarm Business, Tax Year 2016



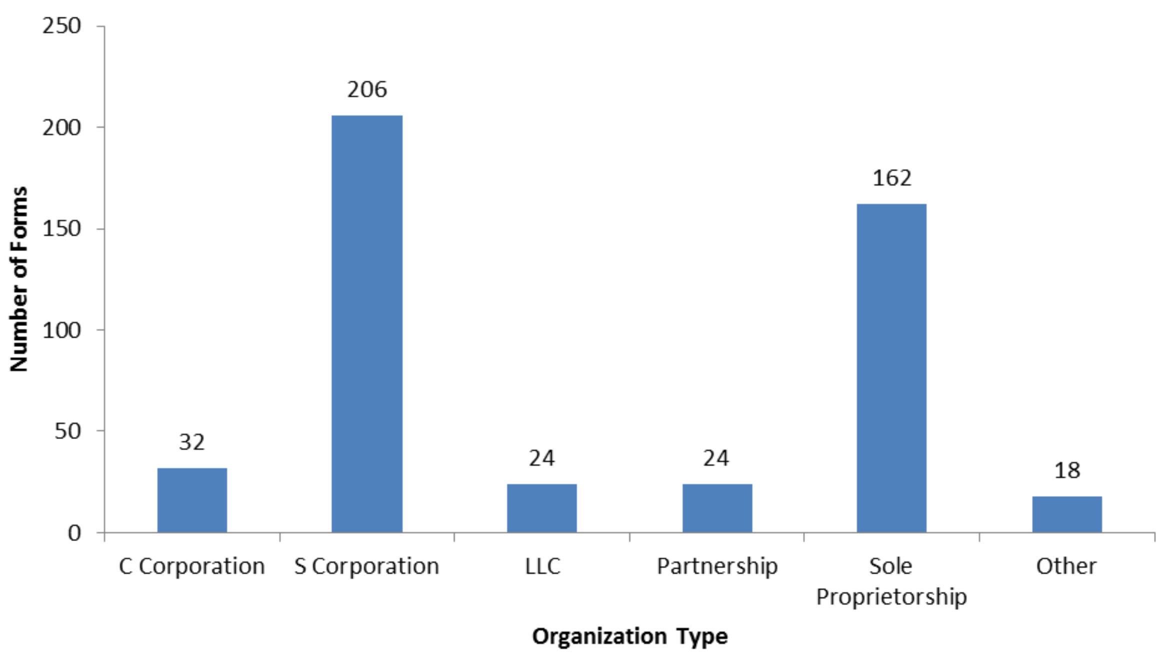
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 25. Number of Forms Reporting Sales of Real Property Used in a Nonfarm Business by Number of Material Participation Tests Checked, Tax Year 2016



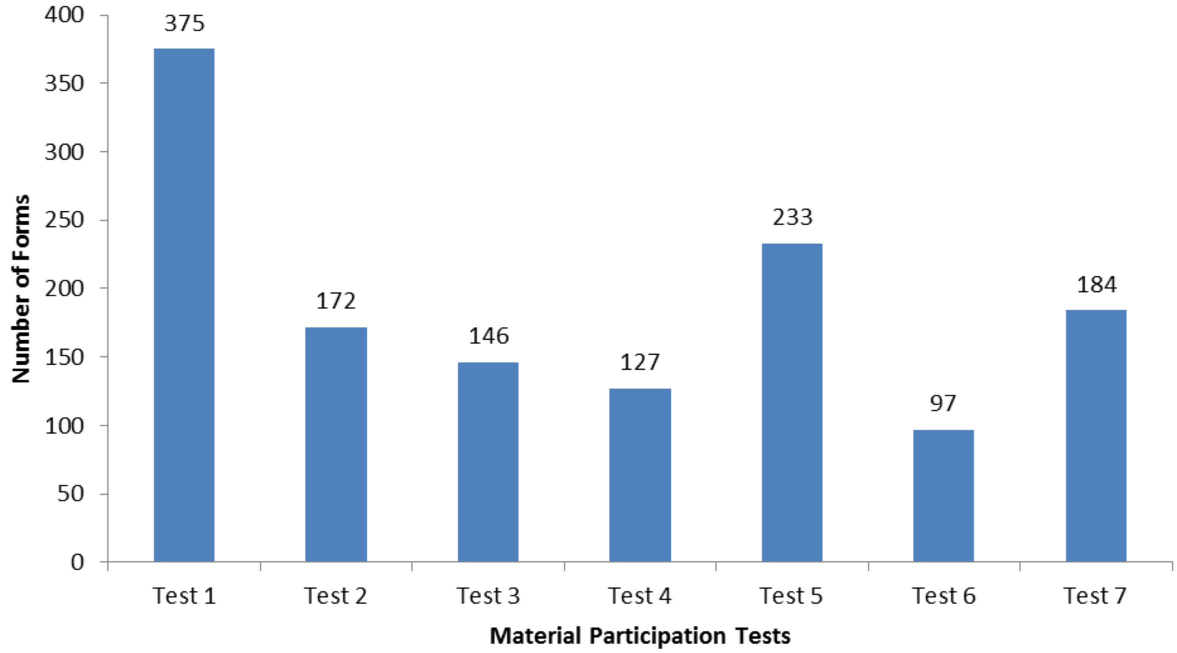
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 26. Organization Types Reported by Taxpayers Claiming the Iowa CGD on Sales of Business, Tax Year 2016



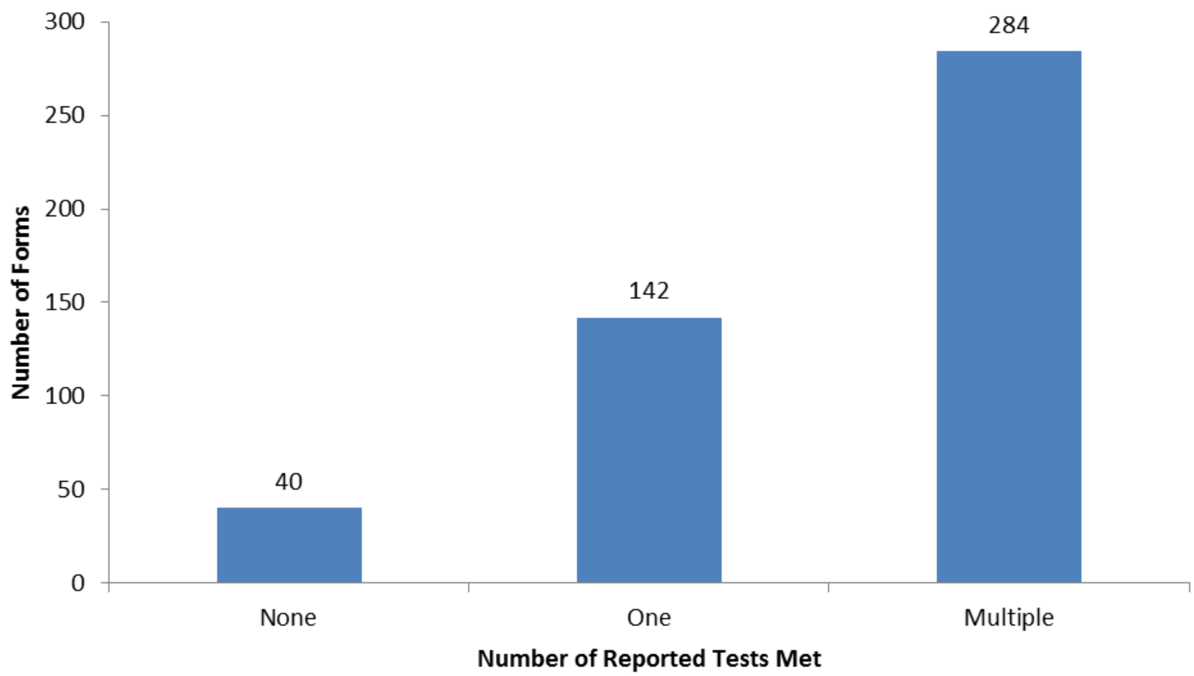
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 27. Material Participation Tests Checked Across Forms Reporting Sales of Business, Tax Year 2016



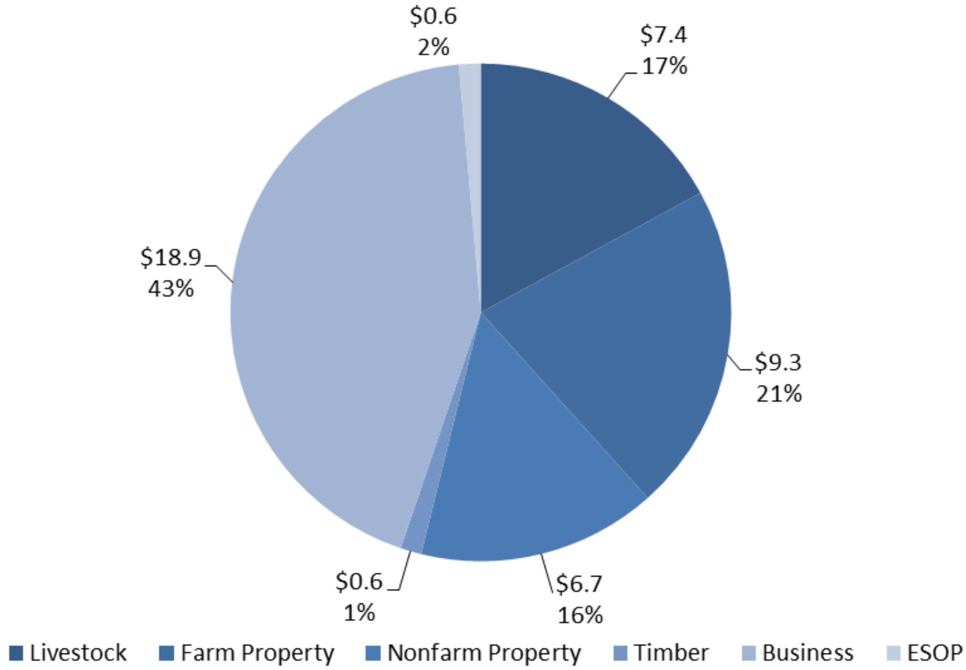
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 28. Number of Forms Reporting Sales of Business by Number of Material Participation Tests Checked, Tax Year 2016



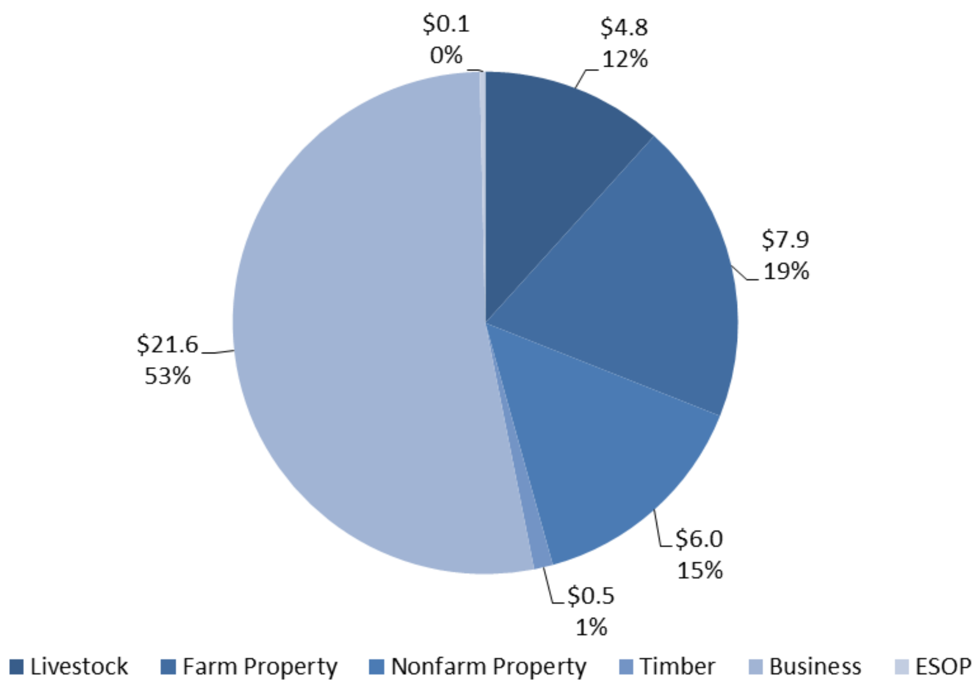
Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.

Figure 29. Distribution of Revenue Reduction by Eligibility Category, Tax Year 2015



Sources: Electronic Filings of Individual Income Tax Returns.
Note: Total Amount of Iowa CGD is in Million.

Figure 30. Distribution of Revenue Reduction by Eligibility Category, Tax Year 2016



Sources: Electronic Filings of Individual Income Tax Returns, as of July 21, 2017.
Note: Total Amount of Iowa CGD is in Million.