

IN THE HOUSE OF REPRESENTATIVES

HOUSE BILL NO. 535

BY REVENUE AND TAXATION COMMITTEE

AN ACT

1 RELATING TO INCOME TAXATION; AMENDING SECTION 63-3022H, IDAHO CODE, TO RE-
2 VISE THE CAPITAL GAINS DEDUCTION FOR CATTLE, HORSES OR BREEDING LIVE-
3 STOCK IN IDAHO; DECLARING AN EMERGENCY AND PROVIDING RETROACTIVE APPLI-
4 CATION.
5

6 Be It Enacted by the Legislature of the State of Idaho:

7 SECTION 1. That Section 63-3022H, Idaho Code, be, and the same is hereby
8 amended to read as follows:

9 63-3022H. DEDUCTION OF CAPITAL GAINS. (1) If an individual taxpayer
10 reports capital gain net income in determining Idaho taxable income, eighty
11 percent (80%) in taxable year 2001 and sixty percent (60%) in taxable years
12 thereafter of the capital gain net income from the sale or exchange of quali-
13 fied property shall be a deduction in determining Idaho taxable income.

14 (2) The deduction provided in this section is limited to the amount of
15 the capital gain net income from all property included in taxable income.
16 Gains treated as ordinary income by the Internal Revenue Code do not qualify
17 for the deduction allowed in this section. The deduction otherwise allow-
18 able under this section shall be reduced by the amount of any federal capital
19 gains deduction relating to such property, but not below zero.

20 (3) Property held by an estate, trust, S corporation, partnership, lim-
21 ited liability company or an individual is "qualified property" under this
22 section if the property had an Idaho situs at the time of sale and is:

23 (a) Real property held at least twelve (12) months;

24 (b) Tangible personal property used in Idaho for at least twelve (12)
25 months by a revenue-producing enterprise;

26 (c) Cattle or horses held for breeding, draft, dairy or sporting pur-
27 poses for at least twenty-four (24) months ~~if more than one-half (1/2)~~
28 ~~of the taxpayer's gross income (as defined in section 61(a) of the In-~~
29 ~~ternal Revenue Code) for the taxable year is from farming or ranching~~
30 ~~operations in Idaho;~~

31 (d) Breeding livestock other than cattle or horses held at least twelve
32 (12) months ~~if more than one-half (1/2) of the taxpayer's gross income~~
33 ~~(as defined in section 61(a) of the Internal Revenue Code) for the tax-~~
34 ~~able year is from farming or ranching operations in Idaho;~~

35 (e) Timber grown in Idaho and held at least twenty-four (24) months;

36 (f) In determining the period for which property subject to this sec-
37 tion has been held by a taxpayer, the provisions of section 1223 of the
38 Internal Revenue Code shall apply, except that the holding period shall
39 not include the holding period of property given up in an exchange, when
40 such property would not have constituted qualified property under this
41 section without regard to meeting the holding period nor shall the hold-
42 ing period include any time period in which the property subject to this

1 section was held by a corporation other than an S corporation. Notwith-
2 standing the preceding sentence, the holding period of qualifying prop-
3 erty that was distributed by an S corporation or an entity treated as a
4 partnership to a person who was an owner, member or partner at the time
5 of the distribution shall, for that person, include the amount of time
6 that the S corporation or the entity held the property, regardless of
7 whether the distribution was a liquidating distribution;

8 ~~(g) When cattle, horses or breeding livestock were held and then sold~~
9 ~~by a pass-through entity, the requirement in paragraphs (c) and (d) of~~
10 ~~this subsection, that more than one-half (1/2) of the taxpayer's gross~~
11 ~~income for the taxable year be from farming or ranching operations in~~
12 ~~Idaho, shall apply to the activities of the pass-through entity. If~~
13 ~~more than one-half (1/2) of the pass-through entity's gross income for~~
14 ~~the taxable year was from farming or ranching operations in Idaho, and~~
15 ~~the other requirements of this section are satisfied, then the capital~~
16 ~~gains deduction is available to the individual owners of an interest~~
17 ~~in the pass-through entity on their distributive share of the proceeds~~
18 ~~from the cattle, horse or breeding livestock sale.~~

19 (4) As used in this section "revenue-producing enterprise" means:

20 (a) The production, assembly, fabrication, manufacture, or processing
21 of any agricultural, mineral or manufactured product;

22 (b) The storage, warehousing, distribution, or sale at wholesale of any
23 products of agriculture, mining or manufacturing;

24 (c) The feeding of livestock at a feedlot;

25 (d) The operation of laboratories or other facilities for scientific,
26 agricultural, animal husbandry, or industrial research, development,
27 or testing.

28 (5) As used in this section the term "real property" means land and in-
29 cludes the following:

30 (a) A "qualified conservation easement," as defined in section
31 2031(c) (8) (B) of the Internal Revenue Code, conveyed to a "Qualified
32 Organization" as defined in section 170(h) of the Internal Revenue
33 Code;

34 (b) Grazing permits or leases issued by the U.S. forest service, the bu-
35 reau of land management or the Idaho department of lands, if such permit
36 is transferred simultaneously with the transfer of the "base property";
37 and

38 (c) Any other property defined in section 1250(c) of the Internal Rev-
39 enue Code as "section 1250 property" conveyed in perpetuity, the trans-
40 fer of which would be required to be in writing by section 9-503, Idaho
41 Code.

42 (6) Property that has been depreciated pursuant to section 1245 of the
43 Internal Revenue Code is not eligible to be treated as real property for pur-
44 poses of this deduction.

45 SECTION 2. An emergency existing therefor, which emergency is hereby
46 declared to exist, this act shall be in full force and effect on and after its
47 passage and approval, and retroactively to January 1, 2016.