

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 503
“Allocation and Apportionment”

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14 and 422.33
State or federal law(s) implemented by the rulemaking: Iowa Code section 422.33

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026
9 to 10 a.m.

Via videoconference call:
meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

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Purpose and Summary

The purpose of this proposed rulemaking is to rescind and readopt Chapter 503. Chapter 503 provides rules for multistate businesses to apportion their income within and without Iowa. Apportionment is constitutionally required for income taxes on businesses engaged in interstate commerce. Iowa Code section 422.33 provides a statutory method for apportioning certain categories of income but specifically delegates to the Department the authority to set by rule apportionment methods for categories not covered in the statute. Chapter 503 provides allocation and apportionment methods for various common categories of business and nonbusiness income not covered by statute. The chapter also provides definitions, examples, and other useful information not included in the Iowa Code for the various apportionment methods covered in both the statute and the rules. Rule 701—503.7(422) includes new language clarifying which common categories of airline revenue are to be included as revenues from transportation operations for apportionment purposes. Rule 701—503.9(422) also provides a process by which taxpayers can request an alternative method of apportionment if they feel the method in the statute or the rules results in a disproportionate amount of their income being taxed by Iowa. This process is authorized by the statute and likely constitutionally required, and the rule provides a fair and uniform process to all taxpayers seeking this type of relief.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no known or ascertainable costs to the public associated with the apportionment rules. Apportionment of income for multistate businesses is statutorily and constitutionally required, and the Iowa Code delegates setting the specific method of apportionment for many categories of income to the Department. There may be other conceivable methods of apportionment that would result in higher or lower costs as applied to specific taxpayers, but the methods outlined in the rules have been in place for decades and have provided uniform and consistent methods of apportionment for Iowa purposes for all of that time. Rule 701—503.9(422) does create a process for taxpayers to request permission to use an alternative method of apportionment.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers, tax preparers and Department staff will benefit from the proposed rulemaking.

2. Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:

- **Quantitative description of impact:**

There is no economic impact of the proposed rulemaking beyond what is contained in the underlying statutes.

- **Qualitative description of impact:**

The rules provide guidance on how to calculate the portion of a corporate income taxpayer's income allocated or apportioned to Iowa and provides a method for requesting to use an alternative apportionment method if the method provided in the rules disproportionately attributes income within and without Iowa. Taxpayers wishing to use an alternative method of apportionment will likely incur some costs to complete this process, but the director's permission to use an alternative method is required by law, and the process provided by the rule ensures a uniform experience across taxpayers making these requests.

3. Costs to the State:

- **Implementation and enforcement costs borne by the agency or any other agency:**

The rules themselves impose no additional costs on the agency; they only clarify items relating to allocation and apportionment that the Department is already required by law to administer. The rules have no known impact on any other agency.

- **Anticipated effect on State revenues:**

This filing implements substantially the same apportionment methods for corporate income taxpayers that have been in place for decades. The rules will be the same for these taxpayers both before and after the filing, so no effect on revenues is anticipated.

4. Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:

The Iowa Code provides a statutory method for determining how certain specific categories of income should be attributed within and without the State but also delegates to the Department the authority to set allocation and apportionment methods for categories of income not explicitly covered by the statute. Without these rules, there would be no Iowa apportionment method for various types of income not explicitly listed in the statute.

5. Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:

There are no known less costly or intrusive methods.

6. Alternative methods considered by the agency:

- **Description of any alternative methods that were seriously considered by the agency:**

Since the Iowa Code delegates setting apportionment methods for some categories of income to the Department, the only alternative would be to simply not provide an Iowa apportionment method for those categories of income.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Not providing some of these rules would leave taxpayers with no clear method of apportioning certain common types of income within and without Iowa, making it difficult or impossible for multistate financial institutions to file fair and accurate Iowa franchise returns.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The allocation and apportionment methods associated with these rules are either imposed by the Iowa Code or delegated by the Iowa Code to the Department to create by rule. Allocation and apportionment of income subject to State tax is constitutionally required. Not apportioning income is typically disadvantageous to any multistate business, regardless of size, since it would likely result in double taxation across states. The rules do provide a process by which any business could seek an alternative method of apportionment, and a small business that was somehow uniquely affected by these rules would be entitled to utilize this process and seek an alternative method.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 503 and adopt the following **new** chapter in lieu thereof:

CHAPTER 503 ALLOCATION AND APPORTIONMENT

701—503.1(422) Basis of corporate tax. Iowa Code section 422.33 imposes a tax on all corporations doing business in Iowa. A corporation whose trade or business is carried on partly within and partly without Iowa or whose income is derived from sources partly within and partly without Iowa may allocate and apportion its income within and without Iowa.

503.1(1) Corporations doing business within and without Iowa.

a. For corporations or other entities subject to the tax (as corporations), the tax is levied and collected only on such income as may accrue or be recognized to the corporation from business done or carried on in Iowa plus net income from certain sources without Iowa that by law follows the commercial domicile of the corporation. An Iowa-domiciled corporation may apportion its income if the trade or business is carried on partly within and partly without Iowa or if income is derived from sources partly within and partly without Iowa, or if income is derived from trade or business and sources, all of which are not entirely in Iowa.

b. Some activities may not create a tax liability in another state because of the protections afforded by Public Law 86-272, 15 U.S.C.A. Sections 381-385, or because of that state's own laws. Irrespective of whether the corporation is taxable in another state, it may apportion its income if it carries on one or a combination of the activities listed in subrule 501.1(2) on a regular and continuing basis by corporate officers or employees in at least one other state.

c. The mere shipment of goods via common carrier or the United States Postal Service to non-Iowa destinations does not constitute doing business partly within and partly without Iowa.

503.1(2) Corporations doing business only within Iowa. If a corporation carries on its trade or business entirely within Iowa, no allocation or apportionment of its income is allowed. The corporation will be presumed to be carrying on its business entirely within Iowa if its sales or other activities are carried on only in Iowa, even though it received income from sources outside Iowa in the form of interest, dividends, royalties and other sources of income from intangibles. An Iowa-domiciled corporation may apportion its income if it has income from intangibles that have acquired a business situs outside Iowa even if it has no other activities outside Iowa.

503.1(3) Carrying on a trade or business partly within and partly without Iowa. Carrying on a trade or business partly within and partly without Iowa means having business activities in at least one other state sufficient to meet the minimum constitutional standards for doing business in a state under the due process and commerce clauses of the United States Constitution. Income from sources partly within and partly without Iowa includes income from real, tangible, or intangible property located or having situs within and without Iowa.

a. *Annual determination.* The determination of whether a corporation is carrying on a trade or business partly within and partly without Iowa must be made on a tax-year-by-tax-year basis. The activities of a past or future tax year have no bearing on the current year.

b. *Activities that qualify as “doing business.”* The activities described in 701—subrule 501.1(2) carried on in at least one other state on a non-de minimis basis would constitute the minimum activities that would meet the constitutional standards for doing business in that state. Whether a corporation’s activity in a state is de minimis is determined by aggregating all activities carried on in a regular, systematic, and continuing basis by corporate officers or employees or representatives in a state.

503.1(4) Iowa taxable income. In determining the total net taxable income, the apportionable (business) income attributable to Iowa, as determined by use of the apportionment fraction, shall be added to the nonapportionable (nonbusiness) income allocable to Iowa.

This rule is intended to implement Iowa Code section 422.33.

701—503.2(422) Allocation or apportionment of investment income.

503.2(1) Investment business income. The classification of investment income by the labels customarily given them, such as interest, dividends, rents, and royalties, is of no aid in determining whether that income is business or nonbusiness income. Interest, dividends, rents, royalties, and other investment income shall be apportioned as business income to the extent the income was earned as a part of a corporation’s unitary business, a portion of which is conducted in Iowa. Whether investment income is part of a corporation’s unitary business income depends upon the facts and circumstances in the particular situation. The burden of proof is upon the taxpayer to show that the treatment of investment income on the return as filed is proper. There is a rebuttable presumption that an affiliated group of corporations in the same line of business have a unitary relationship, although that is not the only element used in determining unitariness.

503.2(2) Inclusion in the apportionment factor.

a. *Income that must be included.* All investment business income described in subrule 503.2(3), including capital gains or losses, shall be included in the computation of the denominator of the business activity formula if the income is derived from intangible property that has become an integral part of some business activity occurring regularly in or outside of Iowa. More information can be found in 701—subrule 501.1(1).

b. *Income included by election.* All other investment business income, including capital gains or losses, described in subrule 503.2(3) may at the taxpayer’s election be included in the computation of the denominator of the business activity formula. However, a taxpayer cannot elect to exclude or include investment business income where the election would result in an understatement of net income reasonably attributable to Iowa. A taxpayer cannot elect to include some investment business

income in and exclude other investment business income from the business activity formula. The election applies to all investment business income of the taxpayer subject to the election.

(1) *Written election.* If the taxpayer has investment income that is deemed to be business income under the provisions of this rule, a written election shall be made with the taxpayer's income tax return in the first year in which the taxpayer has such income. The election must state whether the taxpayer wishes to include or exclude investment income that is deemed to be business income under the provisions of this rule in the computation of the business activity formula. The election shall be signed by a duly authorized officer of the corporation. The election is binding on all future tax years unless the taxpayer is granted permission by the department to change the election. If the taxpayer fails to make a written election, the fact that investment business income was or was not included in the computation of the business activity formula shall be deemed to be the taxpayer's election for all future tax years.

(2) *Changing the election.* If a taxpayer wishes to change the taxpayer's election to include or exclude investment business income in the taxpayer's Iowa apportionment factor, the taxpayer must request the department's permission to change the election not less than 90 days prior to the due date of the return for the tax year in which the taxpayer wishes the change to take effect. Permission to make a change in this election shall only be granted if the department determines that the change will more accurately reflect the net income reasonably attributable to Iowa.

503.2(3) *Apportionment method by category of investment income.* The computation of the business activity formula associated with investment business income is as follows where the investment business income is required to be included in the business activity formula or where an election for inclusion has been made.

a. Interest income from accounts receivable. If an inclusion election is made, accounts receivable interest income is included in the numerator of the business activity formula if the taxpayer receives accounts receivable interest income from customers located in Iowa. Accounts receivable interest income that cannot be segregated by geographical source shall be included in the numerator of the business activity ratio applying the same ratio as gross receipts within Iowa bear to total gross receipts.

EXAMPLE 1: The taxpayer operates a multistate chain of gasoline service stations, selling for cash and on credit. Interest is charged on credit sales, but the interest income cannot be segregated by geographical source. During the tax year, the taxpayer had gross receipts within Iowa of \$300,000, total gross receipts everywhere of \$1,000,000, and accounts receivable interest income everywhere of \$10,000. \$10,000 would be included in the denominator of the business activity formula, and 30 percent of \$10,000, or \$3,000, would be included in the numerator of the business activity formula.

b. Interest income other than accounts receivable. All other interest income determined to be business income, except nontaxable interest income, shall be included in the numerator of the business activity formula to the extent that the interest-bearing asset is an integral part of some business activity occurring regularly in Iowa. If the interest-bearing asset is not an integral part of some business activity occurring regularly in or outside of Iowa and if an election of inclusion is made, the interest, except nontaxable interest income, shall be included in the numerator of the business activity formula if the taxpayer's commercial domicile is in Iowa.

EXAMPLE 2: The taxpayer earns interest income from loans to affiliated corporations, commercial paper, bonds issued by multistate corporations, and federal income tax refunds. The interest income is business income. None of these interest-bearing assets are an integral part of some business activity occurring regularly within or without Iowa. Accordingly, the interest income produced by such assets is subject to an election of inclusion in or exclusion from the business activity formula.

c. Dividend income. All dividend income (net of special deductions) determined to be business income shall be included in the numerator of the business activity formula to the extent that the dividend asset is an integral part of some business activity occurring regularly in Iowa. If the dividend asset is not an integral part of some business activity occurring regularly in or outside of Iowa and

if an election of inclusion is made, the dividends shall be included in the numerator of the business activity formula if the taxpayer's commercial domicile is in Iowa.

EXAMPLE 3: The taxpayer earns dividend income from dividends payable from a mutual fund. The dividend income is business income. The dividends are not an integral part of some business activity occurring regularly within or without Iowa. Assume that the taxpayer had also earned interest income that was business income and that was not an integral part of some business activity occurring regularly within or without Iowa and that the taxpayer had included that interest income in the business activity formula. Under these circumstances, the taxpayer must also include the dividend income in the business activity formula. If no inclusion of investment business income had been made in the business activity formula, the taxpayer would exclude the dividend income from the formula.

d. Rental income. If an inclusion election is made, all rental income determined to be business income shall be included in the numerator of the business activity formula to the extent that property is utilized in Iowa or in its entirety if the taxpayer's commercial domicile is in Iowa and the taxpayer is not taxable in the state in which the property is utilized. The extent of utilization of tangible personal property in a state is determined by multiplying the rent by a fraction, the numerator of which is the number of days of physical location of the property in the state during the rental period in the taxable year and the denominator of which is the number of days of physical location of the property everywhere during all rental periods in the taxable year. If the physical location of the property during the rental period is unknown or not ascertainable by the taxpayer, tangible personal property is utilized in the state in which the property was located at the time the rental payer obtained possession.

e. Royalty income and licensing fees. All royalty income and licensing fees from intangible personal property determined to be business income shall be included in the numerator of the business activity formula to the extent that the royalty or licensing asset is an integral part of some business activity occurring regularly in Iowa. If the royalty or licensing asset is not an integral part of some business activity occurring regularly in or outside of Iowa and if an election of inclusion is made, the royalties or licensing fees shall be included in the numerator of the business activity formula if the taxpayer's commercial domicile is in Iowa.

EXAMPLE 4: A, a corporation with a commercial domicile outside of Iowa, derives royalties from a trade name that is used by other corporations doing business in Iowa in their Iowa businesses. Since the royalty asset is an integral part of an Iowa business activity, A must include the royalties associated with Iowa business activity in the numerator of A's business activity formula.

EXAMPLE 5: The taxpayer, a corporation with a commercial domicile in Iowa, derives license fees from others who do business solely outside of Iowa. The license fees are business income. The license fees are an integral part of some business activity carried on regularly by the others outside of Iowa. The taxpayer must include the license fees in the business activity formula. If the taxpayer also had other license fees that were business income and that were not an integral part of some business activity occurring regularly within or without Iowa, these other license fees would be subject to an election of inclusion in or exclusion from the business activity formula. If an inclusion election is made, all royalty income from tangible personal property or real property determined to be business income shall be included in the numerator of the business activity formula if the situs of the tangible personal property or real property is within Iowa.

f. Gains or losses. Gain or loss from the sale, exchange, or other disposition of real or tangible or intangible personal property, if the property while owned by the taxpayer was operationally related to the taxpayer's trade or business carried on in Iowa, shall be apportioned by the business activity ratio applicable to the return for the year the gain or loss is included in taxable income and shall be included in the computation of the business activity ratio as follows:

(1) Gain or loss from the sale, exchange, or other disposition of real property shall be included in the numerator if the property is located in Iowa and if an election of inclusion has been made.

(2) Gain or loss from the sale, exchange, or other disposition of tangible personal property shall be included in the numerator if an election of inclusion has been made and if the property has a situs

in Iowa at the time of sale, or the taxpayer's commercial domicile is in Iowa and the taxpayer is not taxable in the state in which the property had a situs.

(3) Gain or loss from the sale, exchange, or other disposition of intangible personal property shall be included in the numerator of the business activity formula to the extent that the intangible personal property is an integral part of some business activity occurring regularly in Iowa in the tax year that gain or loss is recognized. If the intangible personal property is not an integral part of some business activity occurring regularly in or outside of Iowa in the tax year that gain or loss is recognized and if an election of inclusion has been made, the gain or loss shall be included in the numerator if the taxpayer's commercial domicile is in Iowa.

EXAMPLE 6: The taxpayer carries on its trade or business within and without Iowa. The taxpayer has patents that it licenses others to use in activities within and without Iowa. The patents are an integral part of business activity occurring regularly within and without Iowa. The taxpayer receives royalty income for the use of the patents. The taxpayer sells the patents on July 1 and realizes a capital gain. The capital gain from the sale of the patents cannot be segregated by geographical source. The taxpayer is on a calendar tax year. From January 1 to July 1, 5 percent of the royalties were attributable to some business activity regularly occurring in Iowa. The taxpayer should include 5 percent of the capital gain in the numerator of the business activity formula.

(4) All gain or loss shall be included in the denominator of the business activity ratio if an election of inclusion has been made or if the gain or loss is required to be included in the business activity ratio.

Nonexclusive examples of gains or losses from the sale, exchange, or other disposition of real or tangible or intangible property, which cannot be included in the computation of the business activity ratio because to do so would result in an understatement of net income reasonably attributable to Iowa, are the gain recognized under an election pursuant to Section 338 of the Internal Revenue Code and the gain recognized under Section 631(a) of the Internal Revenue Code.

g. Other miscellaneous income. All other miscellaneous income determined to be business income that is not subject to an election or that is the subject of a proper election of inclusion shall be included in the computation of the business activity formula to the extent such income items do not represent a recapture of expense. The miscellaneous income shall be included in the numerator of the business activity formula if the income is from an Iowa source.

h. Other investment income. All other investment income shall be included in the numerator of the business activity formula to the extent that the intangible personal property that produced that income is an integral part of some business activity occurring regularly in Iowa. If the intangible personal property is not part of some business activity occurring regularly in or outside of Iowa and if an election of inclusion has been made, the other investment income shall be included in the numerator if the taxpayer's commercial domicile is in Iowa.

i. Activity ratio. Income that is not subject to Iowa tax shall not be included in the computation of the business activity ratio.

503.2(4) *Grossed-up foreign income.* For purposes of administration of the Iowa corporation income tax law, gross-up (Section 78 of the Internal Revenue Code) shall be considered to be nonbusiness income, irrespective of the fact that the income creating the gross-up may be business income, and shall be allocated to the situs of the income payor.

This rule is intended to implement Iowa Code sections 422.32(2) and 422.33(1).

701—503.3(422) Application of related expense to allocable interest, dividends, rents and royalties. Rule 701—503.2(422) deals with the separation of “net” income; therefore, determination and application of related expenses must be made before allocation and apportionment within and without Iowa. Related expenses shall mean those expenses directly related. Related expense includes both directly related expense and indirectly related interest expense. The portion of interest expense indirectly related to allocable interest, other than interest from securities of states and their political subdivisions, dividends, rents and royalties, is determined by multiplying the net amount of interest

expense, after deducting interest directly related to an item of income, by a ratio. The numerator of the ratio is the average value of investments that produce or are held for the production of allocable interest, other than interest from securities of states and their political subdivisions, dividends, rents and royalties. The denominator is the average value of all assets of the taxpayer, less securities of states and their political subdivisions.

A “directly related expense” means an expense that can be specifically attributed to an item of income. Interest expense is considered directly related to a specific property that generates, has generated, or could reasonably have been expected to generate gross income if the existence of all of the following facts and circumstances are established:

1. The indebtedness on which the interest was paid was specifically incurred for the purpose of purchasing, maintaining, or improving the specific property;
2. The proceeds of the borrowing were actually applied to the specified purpose;
3. The creditor can look only to the specific property (or any lease or other interest therein) as security for the loan;
4. It may be reasonably assumed that the return on or from the property will be sufficient to fulfill the terms and conditions of the loan agreement with respect to the amount and timing of payment of principal and interest; and
5. There are restrictions in the loan agreement on the disposal or use of the property consistent with the assumptions described in numbered paragraphs 3 and 4 above.

A deduction for interest cannot be considered definitely related solely to specific property, even though the above facts and circumstances are present in form, if any of such facts and circumstances are not present in substance. Any expense directly or indirectly attributable to allocable interest, dividends, rents and royalties shall be deducted from such income to arrive at net allocable income.

EXAMPLE 1: For purposes of this example, it is assumed that the taxpayer has nonbusiness rental income. The taxpayer invests in a 20-story office building. Under the terms of the lease agreements, the taxpayer provides heat, electricity, janitorial services and maintenance. The taxpayer also pays the property taxes. Construction of the building was funded through borrowings that meet the criteria of a direct expense under the provisions of this paragraph. The directly related expenses to the operation of the property are:

Interest expense	\$1,200,000
Property taxes	500,000
Depreciation	500,000
Electricity	300,000
Heat	200,000
Insurance	150,000
Janitorial services	100,000
Repairs	50,000
Total expense	<u>\$3,000,000</u>

The directly related expense of the allocable nonbusiness rental income is \$3,000,000.

EXAMPLE 2: For purposes of this example, it is assumed that the taxpayer has nonbusiness income. The taxpayer is a multistate manufacturer of processed foods. It has a nonbusiness investment portfolio that is managed by an investment firm for a fee. The fee paid for the management of the portfolio is a directly related expense to the dividends and interest income received. The fee is attributed to the various types of income on the ratio that the various types of income bear to the total income produced.

EXAMPLE 3: Same as Example 2, except that in addition to the investments described, the taxpayer also has investments in oil properties. The depletion expense is a directly related expense to the oil royalty income.

This rule is intended to implement Iowa Code section 422.33.

701—503.4(422) Net gains and losses from the sale of assets. For purposes of administration of this rule, a capital gain or loss means the sale price or value at the time of disposal of an asset less the adjusted basis, whether reportable as short-term or long-term capital gain or ordinary income for federal income tax purposes.

Nonbusiness gain or loss from the sale, exchange or other disposition of property if the property while owned by the taxpayer was not operationally related to the taxpayer's trade or business carried on in Iowa is allocated as follows:

503.4(1) Gains or losses from the sale, exchange or other disposition of real property located in Iowa are allocable to Iowa.

503.4(2) Gains and losses from the sale, exchange or other disposition of tangible personal property are allocable to Iowa if:

- a. The property had a situs in Iowa at the time of sale; or
- b. The taxpayer's commercial domicile is in Iowa and the taxpayer is not taxable in the state in which the property had a situs.

503.4(3) Gains or losses from the sale, exchange or other disposition of intangible personal property are allocable to Iowa if the taxpayer's commercial domicile is in Iowa.

503.4(4) Gains or losses from the sale, exchange or other disposition of stock of another corporation, if the activities of the other corporation were not operationally related to the taxpayer's trade or business carried on in Iowa while the stock was owned by the taxpayer, are allocable to Iowa if the taxpayer's commercial domicile is in Iowa.

This rule is intended to implement Iowa Code section 422.33(1).

701—503.5(422) Where income is derived from the manufacture or sale of tangible personal property. Net income derived from the manufacture or sale of tangible personal property is apportioned to Iowa by the proportion that the gross sales made within Iowa bear to the total gross sales.

503.5(1) Definitions.

"Gross receipts" means gross sales, less returns and allowances. Federal and state excise taxes shall be included as part of such receipts if such taxes are passed on to the buyer or included as part of the selling price of the product.

"Gross sales" includes all gross receipts from the sales of goods, products, or other property included in the inventory of the taxpayer held by the taxpayer primarily for sale to customers in the ordinary course of its trade or business.

"Purchaser within Iowa" includes the ultimate recipient of the property if the taxpayer in Iowa, at the designation of the purchaser, delivers to or has the property shipped to the ultimate recipient within Iowa.

EXAMPLE 1: A taxpayer in Iowa sold merchandise to a purchaser in State A. The taxpayer directed the manufacturer or supplier of the merchandise in State B to ship the merchandise to the purchaser's customer in Iowa pursuant to the purchaser's instructions. The sale by the taxpayer is in Iowa.

503.5(2) Sales of tangible personal property are in Iowa if the property is delivered or shipped to a purchaser within Iowa regardless of the f.o.b. point or other conditions of the sales.

a. *Shipped from out of state.* Property shall be deemed to be delivered or shipped to a purchaser within Iowa if the recipient is located in Iowa, even though the property is ordered from outside Iowa.

EXAMPLE 1: The taxpayer, with inventory in State A, sold \$100,000 of its products to a purchaser having branch stores in several states, including Iowa. The order for the purchase was placed by the purchaser's central purchasing department located in State B. \$25,000 of the purchase order was shipped directly to the purchaser's branch store in Iowa. The branch store in Iowa is the purchaser within Iowa with respect to \$25,000 of the taxpayer's sales.

b. Shipment terminates in Iowa. Property is delivered or shipped to a purchaser within Iowa if the shipment terminates in Iowa, even though the property is subsequently transferred by the purchaser to another state.

EXAMPLE 2: The taxpayer makes a sale to a purchaser who maintains a central warehouse in Iowa at which all merchandise purchases are received. The purchaser reships the goods to its branch stores in other states for sale. All of the taxpayer's products shipped to a purchaser's warehouse in Iowa are property delivered or shipped to a purchaser within Iowa.

c. Shipment diverted to Iowa. When property being shipped by a seller from the state of origin to a consignee in another state is diverted while en route to a purchaser in Iowa, the sales are in Iowa.

EXAMPLE 3: The taxpayer, a produce grower in State A, begins shipment of perishable produce to the purchaser's place of business in State B. While en route, the produce is diverted to the purchaser's place of business in Iowa. The sale by the taxpayer is attributed to Iowa.

503.5(3) Deliveries for transportation outside the state. The taxpayer sells merchandise to a purchaser outside Iowa, and the purchaser picks up the product or makes arrangements to have the product picked up at the taxpayer's place of business in Iowa to be taken outside the state. The sale by the taxpayer is a sale outside Iowa.

503.5(4) Dock or pickup sales. The taxpayer sells merchandise to a purchaser within Iowa, and the purchaser picks up the product at the taxpayer's place of business outside of Iowa. The sale by the taxpayer is a sale in Iowa.

This rule is intended to implement Iowa Code section 422.33.

701—503.6(422) Apportionment of income derived from business other than the manufacture or sale of tangible personal property. Income derived from business other than the manufacture or sale of tangible personal property shall be attributed to Iowa in the proportion that the Iowa gross receipts bear to the total gross receipts. Gross receipts are includable in the numerator of the apportionment factor in the proportion that the recipient of the service receives benefit of the service in Iowa.

503.6(1) Services in general. This subrule applies to all services other than those set forth in subrules 503.6(3) through 503.6(5) and rule 701—503.7(422).

a. All of the benefit received in Iowa. All gross receipts from the performance of services are includable in the numerator of the apportionment factor if the recipient of the service receives all of the benefit of the service in Iowa.

EXAMPLE 1: A real estate development firm from State A is developing a tract of land in Iowa. The real estate development firm from State A engages a surveying company from State B to survey the tract of land in Iowa. The survey work is completed and the plats are drawn in Iowa. The gross receipts from this survey work are attributable to Iowa and included in the numerator of the apportionment factor because the recipient of the service received all of the benefits of the service in Iowa.

EXAMPLE 2: A corporation headquartered in State Y is building an office complex in Iowa. The corporation from State Y contracts with an engineering firm from State X to oversee construction of the buildings on the site. The engineering firm performs some of its service in Iowa at the building site and also some of its service in State X. The gross receipts from the engineering service are attributable to Iowa and included in the numerator of the apportionment factor because the recipient of the service received all of the benefit of the service in Iowa.

EXAMPLE 3: A corporation from State A contracts with a computer software company from State D to develop and install a custom software application in a business office in Iowa of the company from State A. The software firm does consulting work on the project in State A and in Iowa. The software development is done in State D and in Iowa. The software package is delivered to the corporation from State A in Iowa. The gross receipts from the software development are attributable to Iowa and included in the numerator of the apportionment factor because the recipient of the service received all of the benefit of the service in Iowa.

b. Benefit received partially within and partially without Iowa. If the recipient of the service receives some of the benefit of the service in Iowa with respect to a specific contract or item of income, the gross receipts are includable in the numerator of the apportionment factor in proportion to the extent the recipient receives the benefit of the service in Iowa.

EXAMPLE 4: A corporation located in Iowa performs direct mail activities for a customer located in State X. The direct mail activities include the preparation and mailing of materials to households located throughout the United States. The corporation located in Iowa performed some activities related to the direct mail contract in State X. One percent of the direct mailings went to addresses within Iowa. One percent of the gross receipts related to this direct mail contract are attributable to Iowa and included in the numerator of the apportionment factor because the recipient of the service received the 1 percent of the benefit of the service in Iowa.

EXAMPLE 5: A corporation located in State A performs direct mail activities for a customer located in State X. The corporation has nexus with Iowa due to other activities of the unitary business. The direct mail activities include the preparation and mailing of materials to households throughout the United States. The corporation located in State A printed and mailed the direct mail materials to households on a mailing list prepared by the direct mailing company in State A. Five percent of the direct mailings went to addresses within Iowa. Five percent of the gross receipts related to this direct mail contract are attributable to Iowa and included in the numerator of the apportionment factor.

EXAMPLE 6: A company that owns apartments in Iowa and State A contracts with a pest control corporation for pest control activities. One contract is entered into that covers 100 apartment units in Iowa and 400 apartment units in State A. Twenty percent (100/500) of the gross receipts from the pest control contract are attributable to Iowa and are included in the numerator of the apportionment factor as 20 percent of the apartment units are located in Iowa, and in the absence of more accurate records, it is presumed that the number of apartment units is the best measure of the extent the recipient of the service received benefit of the service in Iowa.

503.6(2) Fees and commissions included in gross receipts. If the business activity consists of providing services, such as the operation of an advertising agency, or the performance of equipment service contracts, research and development contracts, “sales” includes the gross receipts from the performance of such services, including fees, commission, and similar items. In the case of cost plus fixed fee contracts, such as the operation of a government-owned plant for a fee, gross receipts include the entire reimbursed cost, plus the fee.

503.6(3) Financial organizations.

a. “Financial organization” means any finance company or investment company doing business in Iowa. A finance company includes any consumer finance company, sales finance company, or commercial finance company making loans to individuals and businesses. An investment company includes a company primarily engaged in the business of investing, reinvesting, owning, holding or trading in securities. “Financial organization,” for purposes of this subrule, does not include financial institutions exempt from the corporation income tax under Iowa Code section 422.34(1).

b. A financial organization conducting business partially within and partially without Iowa must apportion to Iowa the sum of:

(1) Fees, commission or other compensation for financial services rendered for a customer located in Iowa or an account maintained within Iowa;

(2) Gross profits from trading in stocks, bonds or other securities rendered for a customer located within Iowa;

(3) Interest income from a loan on real property located in Iowa, interest and other receipts from assets in the nature of loans and installment obligations if the borrower is located within Iowa, and other fees and other miscellaneous earnings if connected with loans to borrowers within Iowa;

(4) Interest charged to customers within Iowa or to accounts maintained within Iowa for carrying debit balances of margin accounts, without deduction of any costs incurred in carrying such accounts;

(5) Interest, lease payments, or other receipts from financing leases, installment sales contracts, leases or other financing instruments received from customers within Iowa; and

(6) Any other gross income resulting from the operation as a financial organization within Iowa.

503.6(4) *Construction contracts.* Net business income of construction contractors shall be attributed to Iowa in the proportion that Iowa gross receipts bear to total gross receipts. Iowa gross receipts are those gross receipts from contracts performed in Iowa.

503.6(5) *Partnerships and joint ventures.* A corporation's distributive share of net income or loss from a joint venture, limited liability company, or partnership (pass-through entity) is subject to apportionment within and without Iowa. If the income from the pass-through entity is received in connection with the taxpayer's regular trade or business operations, the income from the pass-through entity shall be apportioned within and without Iowa on the basis of the pass-through entity's business activity ratio. The corporation's distributive share of the gross receipts of the pass-through entity shall be included in the computation of the business activity ratio in accordance with the provisions of this chapter.

EXAMPLE 1: A, a corporation with a commercial domicile in State X, is engaged in business within and without Iowa whereby A sells tangible personal property. A also has an interest in a limited partnership whose business is conducted within and without Iowa. Five percent of the limited partnership's gross receipts are derived from the sale of tangible personal property to Iowa purchasers and 95 percent are derived from sales and deliveries to purchasers outside of Iowa. A will include 5 percent of its distributive share of the gross receipts of the partnership in the numerator along with A's destination Iowa sales in calculating its business activity ratio. A will include 100 percent of its distributive share of the gross receipts in the denominator along with A's total sales in calculating its business activity ratio.

EXAMPLE 2: B, a corporation with a commercial domicile in State X, has no physical presence in the state of Iowa. B's only contact with Iowa is B's interest in a limited partnership whose business is conducted within and without Iowa. Ten percent of the limited partnership's gross receipts are derived from the sale of tangible personal property to Iowa purchasers and 90 percent are derived from sales and deliveries to purchasers outside of Iowa. B will include 10 percent of its distributive share of the gross receipts of the partnership in the numerator in calculating its business activity ratio. B will include 100 percent of its distributive share of the gross receipts in the denominator along with B's total sales in calculating its business activity ratio.

503.6(6) *Rents and royalties.*

a. Real property. Gross receipts from rent or royalties or other fees received for the use of real property are attributable to Iowa if the real property is located in Iowa.

b. Tangible personal property. Gross receipts from rent, royalties, license fees, or other fees received for the use of tangible personal property are attributable to Iowa to the extent that the property is utilized in Iowa. The extent of utilization of tangible personal property in Iowa is determined by multiplying the rents, royalties, license fees or other fees by a fraction, the numerator of which is the number of days or other measure of physical location of the property in the state during the rental period in the taxable year and the denominator of which is the number of days or other measure of physical location of the property everywhere during all rental periods in the taxable year. If the physical location of property during the rental period is unknown or not ascertainable by the taxpayer, tangible personal property is utilized in the state in which the property was located at the time the rental payer obtained possession. An example of another measure of physical location of property is where a lessee of transportation equipment is required to report to the lessor miles traveled by state.

EXAMPLE 1: A lessee takes possession of a rental car in Iowa. Six days later after driving 1,500 miles, the rental car is returned to the lessor in Iowa. Absent evidence to the contrary, the rental receipts are attributable to Iowa.

EXAMPLE 2: A lessee takes possession of a rental car in Iowa. Six days later after driving 1,500 miles, the rental car is returned to the lessor in an adjacent state. Absent evidence to the contrary, it is assumed that 50 percent of the rental receipts are attributable to Iowa.

EXAMPLE 3: A lessee takes possession of a rental semi-truck in another state. The lessee is required to maintain mileage records by state for purposes of special fuel tax. The lessee provides copies of these records to the lessor. The lessor must use these records to determine the portion of the rental receipts that are attributable to Iowa.

503.6(7) *Allocation and apportionment of out-of-state business due to state-declared disaster.* 701—Chapter 276 contains more information about allocation and apportionment of income derived from an out-of-state business that enters Iowa to perform “disaster and emergency-related work” during a “disaster response period” as those terms are defined in Iowa Code section 29C.24.

This rule is intended to implement Iowa Code section 422.33(1).

701—503.7(422) Apportionment of income of transportation, communications, and certain public utilities corporations. Net income of these corporations, other than interest, dividends, rents and royalties, that is not specifically allocated by rules 701—503.2(422) and 701—503.6(422) shall be apportioned as follows:

503.7(1) Railroads shall determine their Iowa proportion of gross receipts or gross revenue from railroad operations by the following methodology:

a. Freight revenue. Freight revenue within and without Iowa is determined for each individual freight movement by taking the proportion of car and locomotive miles traveled in Iowa to total car and locomotive miles traveled within and without Iowa for the individual freight movement and applying such individual percentage to the gross receipts derived from the individual freight movement. Empty mileage that does not produce gross receipts will not be used.

b. Passenger revenue. Passenger revenue within and without Iowa is determined by use of the same principles applicable to freight revenue.

c. Switching revenue. Unless the switching revenue is accounted for in the freight revenue or passenger revenue categories, it will be determined in accordance with subrule 503.6(1).

d. Miscellaneous revenue. Nonexclusive examples of miscellaneous revenues include demurrage revenue, station services revenue, storage revenue, railway property rental, joint facility revenue, and amounts received from government authorities. These revenues are attributed to the state in which they were earned.

e. All of the above classes of revenues shall be aggregated and combined with other gross receipts or gross revenues from sources within Iowa to compose the numerator. The denominator shall include all gross receipts or gross revenues of the business.

503.7(2) Truck and bus line companies, water transportation companies, and freight car and equipment companies shall determine their Iowa proportion of gross receipts or gross revenues derived from transportation operations by taking the proportion of mileage traveled in Iowa to the total mileage traveled within and without the state.

503.7(3) Airlines shall determine their Iowa proportion of gross receipts or gross revenues derived from transportation operations by taking the proportion of mileage traveled in Iowa to the total mileage traveled within and without Iowa. For purposes of this subrule, “gross receipts from transportation operations” means all passenger and freight transportation receipts.

a. “Passenger transportation receipts” means revenue earned by an airline from:

(1) Selling air transportation services to transport passengers and their baggage, including but not limited to the sale of capacity on its aircraft to other airlines or entities in order to transport passengers, the sale of tickets to passengers under agreements (e.g., codesharing agreements) with other airlines, baggage fees, and the sale of “points” or “miles” that may be redeemed by the purchaser or by a third party for air travel; and

(2) Selling or renting property or services to be used or consumed by passengers during the course of air transportation, including but not limited to the sale of food or liquor, the sale of on-flight services such as entertainment and wi-fi, and the rental of pet crates.

b. “Freight transportation receipts” means revenue earned by an airline from:

(1) Selling air transportation services to transport freight, packages, or mail, including but not limited to the sale of capacity on its aircraft to other airlines or entities in order to transport freight and the sale of freight transportation services under agreements (e.g., codesharing agreements) with other airlines; and

(2) Selling or renting property or services to be consumed or used during the course of an aircraft flight.

503.7(4) Oil, gasoline, gas and other pipeline companies shall determine the proportion of transportation revenue derived from interstate business that is attributable to Iowa by the proportion of Iowa traffic units to total traffic units. The “traffic unit” of an oil pipeline is defined as the transportation of one barrel of oil for a distance of one mile; the “traffic unit” of a gasoline pipeline is defined as the transportation of one barrel of gasoline for a distance of one mile; and a “traffic unit” of a gas pipeline is defined as the transportation of 1,000 cubic feet or one dekatherm of natural or casinghead gas for a distance of one mile. The taxpayer may use either 1,000 cubic feet or one dekatherm as a “traffic unit” as long as the numerator and denominator are computed on the same basis. Any other pipeline company will use the definition of the “traffic unit” that would most nearly describe the substance transported.

503.7(5) Telecommunications companies shall determine the Iowa proportion of gross receipts or gross revenues from telecommunication operations as described in this rule.

“*Telecommunication companies*” includes but is not limited to telephone companies; resellers of telephone services; cellular phone companies; personal communication service providers; paging service providers; radio communication providers; internet access providers; cable television, satellite television, and community antenna television companies; and other companies of a similar type.

“*Telecommunications*” is an electronic mode of transmitting data, information, and audio and video signals and includes but is not limited to both one-way and two-way signals using land-line phones, cellular phones, paging devices, satellites, and microwave systems. Telecommunications is a medium or mode of delivery, not the actual content of the information transmitted over the medium. Telecommunications does not include broadcast radio and television. More information can be found in Iowa Code section 422.33(2) “a”(2)(e).

- a. Gross receipts or gross revenues from local service in Iowa are attributable to Iowa.
- b. Gross receipts or gross revenues from toll services originating and terminating in Iowa are attributable to Iowa.
- c. Gross receipts or gross revenues from interstate toll services originating in Iowa and charged to an Iowa service address are attributable to Iowa.
- d. Gross receipts or gross revenues from interstate toll services terminating in Iowa and charged to an Iowa service address are attributable to Iowa.
- e. Gross receipts or gross revenues from the sale of phone cards in Iowa are attributable to Iowa.
- f. Gross receipts or gross revenues from the sale of telecommunication services to resellers of telecommunication services for telecommunication services used for local service in Iowa are attributable to Iowa.
- g. Gross receipts or gross revenues from the sale of telecommunication services to resellers of telecommunication services for telecommunication services used for toll services originating and terminating in Iowa are attributable to Iowa.
- h. Gross receipts or gross revenues from the sale of telecommunication services to resellers of telecommunication services for telecommunication services used for interstate toll services originating in Iowa are attributable to Iowa.
- i. Gross receipts or gross revenues from internet access originating in Iowa and charged to an Iowa service address are attributable to Iowa.
- j. Gross receipts or gross revenues from cellular phone services originating in Iowa and charged to an Iowa service address are attributable to Iowa.

- k.* Gross receipts or gross revenues from personal communication services originating in Iowa and charged to an Iowa service address are attributable to Iowa.
- l.* Gross receipts or gross revenues from paging services originating in Iowa and charged to an Iowa service address are attributable to Iowa.
- m.* Services originating in Iowa and charged to an Iowa service address are attributable to Iowa.
- n.* Gross receipts from cable television, satellite television, and community antenna television services charged to an Iowa service address are attributable to Iowa.
- o.* Gross receipts from providing internet access charged to an Iowa service address are attributable to Iowa.
- p.* Any other gross receipts or gross revenues from fees, access charges, toll services or other charges for communication services charged to an Iowa service address are attributable to Iowa.
- q.* All of the above classes of revenues shall be aggregated and combined with other gross receipts or gross revenues from sources within Iowa to compose the numerator. The denominator shall include all gross receipts or gross revenues of the business.

503.7(6) Corporations in the business of publishing, selling, licensing, or distributing newspapers, magazines, periodicals, trade journals, or other printed material, or that publish, sell, license or distribute in a filmed or microfilmed image, over a website or application, or in an electronic media, an electronic virtual storage system or broadcasts any of the above items that have been traditionally disseminated in a printed format shall determine the Iowa portion of gross receipts by the following methodology:

- a.* Gross receipts from the sale of tangible personal property, including printed materials, electronic storage media, fees for use of an electronic virtual storage system or fees to receive a broadcast delivered, shipped or broadcast to a purchaser or a subscriber in Iowa.
- b.* Gross receipts from advertising shall be attributed to Iowa as determined by the taxpayer's circulation factor during the tax period. The circulation factor shall be determined for each individual publication of the taxpayer containing advertising and shall be equal to the ratio that the taxpayer's Iowa circulation to purchasers and subscribers of its printed material, electronic storage media, electronic virtual storage system or broadcasts containing advertising bears to its total circulation to purchasers and subscribers everywhere.

The circulation factor for an individual publication shall be determined by reference to the rating statistics as reflected in such sources as the Audit Bureau of Circulations or other comparable sources, provided that the source selected is consistently used from year to year for such purpose. If none of the foregoing sources are available, or, if available, none are in a form or content sufficient for such purposes, then the circulation factor shall be determined from the taxpayer's books and records.

- c.* When specific items of advertisement can be shown, upon clear and convincing evidence, to have been distributed solely to a limited regional or local geographic area of which Iowa is a part, the taxpayer may petition, or the director may require, that all or a portion of such receipts be attributed to Iowa on the basis of a regional or local geographic area circulation factor and not upon the basis of the circulation factor provided by paragraph 503.7(6) "b."

Such attribution shall be based on the ratio that the taxpayer's circulation to purchasers and subscribers located in Iowa bears to its total circulation to purchasers and subscribers located within such regional or local geographic area. This alternative attribution method shall be permitted only on the condition that such receipts are not double counted or otherwise included in the numerator of any other state.

503.7(7) Utility companies shall determine their Iowa gross receipts or gross revenues from transporting natural or casinghead gas for others that is attributable to Iowa by the proportion of Iowa traffic units to total traffic units. The "traffic unit" is defined to be the transportation of 1,000 cubic feet or one dekatherm of natural or casinghead gas for a distance of one mile. Where the transportation is less than one mile, the taxpayer must accumulate the fractions of one mile into one-mile increments for purposes of computing traffic units. The taxpayer may use either 1,000 cubic

feet or one dekatherm as a traffic unit as long as the numerator and denominator are computed on the same basis.

503.7(8) Utility companies shall determine their Iowa gross receipts or gross revenues from transporting electricity for others that is attributable to Iowa by the proportion of Iowa traffic units to total traffic units. The “traffic unit” is defined to be the transportation of 1,000 kilowatt-hours of electricity for a distance of one mile. Where the transportation is less than one mile, the taxpayer must accumulate the fractions of one mile into one-mile increments for purposes of computing traffic units.

This rule is intended to implement Iowa Code section 422.33.

701—503.8(422) Apportionment of income derived from more than one business activity carried on within a single corporate structure. Net income from corporations where more than one business activity is conducted within a single unitary corporate structure shall be apportioned by combining gross receipts or gross revenues of each business activity in the business activity ratio. Where necessary, formulas authorized by the department’s rules or statute shall be used to ascertain the gross receipts from such business activities.

EXAMPLE: The taxpayer is engaged in the business of both manufacture of tangible personal property and trucking. During the tax year, the taxpayer received \$1,000,000 in gross receipts, \$400,000 of which was from its manufacturing operations and \$600,000 of which was from its trucking operations. In its trucking operations, the taxpayer traveled 100,000 miles in Iowa and 400,000 everywhere, and in its manufacturing operations, \$300,000 of sales were attributable to Iowa. The numerator of the business activity ratio would be \$450,000, which includes \$300,000 from manufacturing operations and \$150,000 ($100,000/400,000 \times 600,000 = 150,000$) from trucking operations. More information can be found in subrule 503.7(2). The denominator of the business activity ratio would be \$1,000,000.

This rule is intended to implement Iowa Code section 422.33.

701—503.9(422) Allocation and apportionment of income in special cases. If a taxpayer believes that the allocation and apportionment method as prescribed by Iowa Code section 422.33(2) or this chapter in the taxpayer’s case results in taxation of a greater portion of the income than is reasonably attributable to Iowa, the taxpayer may request the department’s permission to determine the taxable net income to the state, both allocable and apportionable, on some other basis.

503.9(1) Definition—statutory method of apportionment. The term “statutory method of apportionment” means the Iowa allocation and apportionment methods set forth in Iowa Code section 422.33(2) and the allocation and apportionment methods set forth in this chapter.

503.9(2) Request requirements.

a. A taxpayer that wishes to apply for an alternative method of apportionment must meet all of the following requirements.

(1) Original return. The taxpayer must first file the return as prescribed by Iowa Code section 422.33(2) and pay the tax shown due.

(2) Statement of facts. The request must be in writing and set forth in detail the facts upon which the request is based.

(3) Statement of objections. The request should include a detailed explanation of the taxpayer’s objections to the statutory method of apportionment as well as any schedules or other documentation needed to support the objections.

(4) Requested alternative method. A detailed explanation of the alternative method requested by the taxpayer must be included with the request and should include any schedules or other documentation needed to support the requested method.

(5) Supporting documentation. The department may request any additional information the department deems necessary to analyze the request for an alternative method of apportionment, and the taxpayer must produce the information within a reasonable period of time.

(6) Submission method. Requests for alternative apportionment or allocation may be submitted through GovConnectIowa or by mail to Iowa Department of Revenue, P.O. Box 14467, Des Moines, Iowa 50306-3467.

b. If any of these requirements are not met, the request may be denied.

503.9(3) Review. The burden of proof will be on the taxpayer as to the validity of the method and its results.

a. The taxpayer must show by clear and cogent evidence that:

(1) The statutory formula apportions income to Iowa out of all reasonable proportion to the business transacted within Iowa;

(2) The alternative apportionment method proposed by the taxpayer reasonably reflects the business transacted within and without Iowa; and

(3) The alternative apportionment method proposed by the taxpayer better reflects the business transacted within and without Iowa than any other reasonably conceivable methods.

b. A mere showing that one alternative apportionment method produces a result substantially different than the statutory method of apportionment is not sufficient to justify the granting of the apportionment method requested.

503.9(4) Department determination.

a. Review. All requests to use an alternative method of allocation and apportionment submitted to the department will be considered by the policy bureau.

b. Determination of method. If the department concludes that the statutory method of allocation and apportionment is, in fact, both inapplicable and inequitable, the department may either approve the alternative method requested by the taxpayer or prescribe some other method of allocation and apportionment that the department deems to equitably attribute income to business activities carried on within Iowa.

c. Department determination. The department will provide the taxpayer with a written determination either denying the request, or approving the request and describing the method approved.

503.9(5) Appeals. If the taxpayer disagrees with the determination of the department, the taxpayer may file an appeal within 60 days of the date of the letter setting forth the department's determination and the reasons therefore in accordance with rule 701—7.8(17A). The department's determination letter shall set forth the taxpayer's rights to appeal the department's determination. If no appeal is filed within the 60-day period, then no hearing will be granted on the department's determination under this rule.

503.9(6) Applicability.

a. The use of an alternative method of allocation and apportionment is applicable to the years under consideration at the time the alternative method of allocation and apportionment is approved. The taxpayer's continued use of an approved method of allocation and apportionment in future years may be allowed, subject to review and change within the statutory or legally extended period(s).

b. If there is a material change in the business operations or accounting procedures from those in existence at the time the taxpayer was permitted to determine the business transacted within Iowa by an alternative method of allocation and apportionment, the taxpayer shall notify the department of such changes prior to filing its return for the current year. After reviewing the information submitted, along with any other information the department deems necessary, the department will notify the taxpayer if the alternative method of allocation and apportionment is still allowed.

This rule is intended to implement Iowa Code section 422.33.