RA 26-399

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 501
"Filing Returns, Payment of Tax, Penalty and Interest, and Tax Credits"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 422.21, 422.33, and 422.36

State or federal law(s) implemented by the rulemaking: Iowa Code sections 422.21, 422.24, 422.33, and 422.36

Public Hearing

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

December 1, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/xyw-vthq-qti

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 501. Chapter 501 provides the rules pertaining to the administration of corporation income tax. The rules are intended to help the public understand how to comply with all types of income tax obligations, including when businesses are required to file returns (have nexus). Rules 701—501.4(422) and 701—501.11(422) have been determined by the Department to be either unnecessary, obsolete, or duplicative of statutory language and are therefore omitted from the new version of the chapter. The Department determined that other rules under this chapter may be repromulgated with clear, accurate, and concise language in accordance with Iowa law. Rule 701—501.1(422) has been updated to reflect the treatment of more modern methods of doing business, which are not contemplated in the current rule, and how they should be treated for nexus and Public Law 86-272 purposes.

The Department has determined that the rules in the current version of this chapter that aid the public in understanding the qualifications and process to claim tax credits against income tax are useful and are therefore proposed under 700—Chapter 800 in **RA 26-366** (IAB 10/28/26). Additionally, a rule on the method for determination of corporate income tax rate adjustments that is proposed to be removed from 700—Chapter 500 in **RA 26-363** (IAB 10/28/26) has been moved to this chapter under rule 701—501.3(422), where it is better suited.

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 costs to the proposed rulemaking beyond those that are imposed by the underlying statutes.

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

The public will benefit from the proposed rulemaking because revising rules implementing the administration of corporate income tax provides enhanced accessibility to those rules and reduces confusion related to income tax.

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 are no significant quantitative impacts known to be associated with this rulemaking.

- **Qualitative description of impact:**

The proposed rulemaking will enhance clarity of the administrative rules applicable to the filing of corporation income tax.

3. **Costs to the State:**

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

There are no costs to the Department to implement the proposed rulemaking beyond what would otherwise be required to administer the underlying statutes.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues, and the amendments of repromulgated rules and elimination of rules that are no longer necessary or are obsolete will provide clarity to the public.

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

There is no benefit to retaining the subrules mentioned above. The cost of inaction of updating the rules in the proposed rulemaking would lead to confusion and frustration. The benefits of the proposed rulemaking are to eliminate unnecessary and obsolete language and rules and to make it easier for the public and tax preparers to find guidance by ensuring the rules only include language that is both clear and necessary to implement Iowa tax law.

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

No less costly or less intrusive methods have been identified.

6. **Alternative methods considered by the agency:**

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

The Department considered rescinding any and all of the rules in this chapter but determined that the proposed rulemaking was necessary to provide guidance and clarification to the public beyond what is provided in the underlying statutes.

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

The Department determined that retention of rules with the proposed revisions in this rulemaking will reduce confusion about the subjects of those rules. Proceeding without these rules could negatively impact the public by complicating good-faith taxpayers' ability to comply with Iowa tax law in a proper and timely manner.

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 proposed rulemaking does not have a substantial impact on small business and does not impose any additional requirements on business other than what is imposed by the underlying statutes.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 501 and adopt the following **new** chapter in lieu thereof:

CHAPTER 501
FILING RETURNS

701—501.1(422) Who must file. Every corporation doing business within Iowa, or deriving income from sources consisting of real, tangible, or intangible property located or having a situs within Iowa, shall file a true and accurate return of its income or loss for the taxable period. The return shall be signed by the president or other duly authorized officer of the corporation.

501.1(1) *Definitions.*

"Doing business" is used in a comprehensive sense and includes all activities or any transactions for the purpose of financial or pecuniary gain or profit. Irrespective of the nature of its activities, every corporation organized for profit and carrying out any of the purposes of its organization shall be deemed to be "doing business." In determining whether a corporation is doing business, it is immaterial whether its activities actually result in a profit or loss.

"Intangible property" includes but is not limited to the following: copyrights, patents, processes, trademarks, trade names, franchises, contracts, bank deposits including certificates of deposit, repurchase agreements, mortgage loans, consumer loans, business loans, shares of stocks, bonds, licenses, partnership interests including limited partnership interests, leaseholds, money, evidences of an interest in property, evidences of debts such as credit card debt, leases, an undivided interest in a loan, rights-of-way, and interests in trusts.

"Intangible property located or having a situs within Iowa" means intangible property that belongs to a corporation with its commercial domicile in Iowa or, regardless of where the corporation that owns the intangible property has its commercial domicile, that has become an integral part of some business activity occurring regularly in Iowa. The term also includes the intangible property of every foreign corporation that has acquired a commercial domicile in Iowa and whose property has not acquired a constitutional tax situs outside of Iowa.

"Public Law 86-272" means 15 U.S.C.A. Sections 381 through 385.

"Representative" includes independent contractors, agents, brokers, and other individuals or entities who act on behalf of or at the direction of the corporation. A person may be considered a representative even though that person may not be considered an employee for other purposes such as withholding of income tax from commissions.

"Tangible property having a situs within Iowa" means that tangible property owned or used by corporation is habitually present in Iowa or it maintains a fixed and regular route through Iowa sufficient so that Iowa could impose an apportioned ad valorem tax on the property under the United States Constitution.

"Tangible property having a situs without Iowa" means tangible property that is habitually present in a state other than Iowa or maintains a fixed and regular route through another state sufficient that the other state could impose an apportioned ad valorem tax on the property under the United States Constitution.

"Within Iowa" includes all activities within the meaning of "doing business" carried on in Iowa or directed at customers in Iowa. Physical presence in the traditional sense within Iowa is not necessarily required for a business to be considered carrying on activity within Iowa. "Within Iowa" includes activities conducted online through websites or applications that are directed at Iowa customers.

501.1(2) *Corporate activities that establish nexus.* The following nonexclusive list of activities carried on in the state on a non-de minimis basis would constitute the minimum activities that would meet the constitutional standards for doing business in that state.

a. Installation or assembly of the corporate product.

b. Ownership or lease of real estate by the corporation that is used for a business purpose.

c. Solicitation of orders for, or sale of, services or real estate.

d. Solicitation of sales or sale of tangible personal property (as opposed to solicitation of orders).

e. Maintenance of a stock of inventory.

f. Existence of an office or other business location.

g. Managerial activities.

h. Collections on regular or delinquent accounts.

i. Technical assistance and training given to purchaser and user of corporate products.

j. The repair or replacement of faulty or damaged goods.

k. The pickup of damaged, obsolete, or returned merchandise from purchaser or user.

l. Rectification of or assistance in rectifying any product complaints or shipping complaints, for example.

m. Delivery of corporate merchandise inventory to corporation's distributors or dealers on consignment.

n. Maintenance of personal property.

o. Participation in recruitment, training, monitoring, or approval of servicing distributors, dealers, or others where purchasers of corporation's products can have such products serviced or repaired.

p. Inspection or verification of faulty or damaged goods.

q. Inspection of the customer's installation of the corporate product.

r. Research.

s. Employees' or officers' use of part of their homes or other places as an office if the corporation pays for such use.

t. The use of samples for replacement or sale and storage of such samples at home or in rented space.

u. Removal of old or defective products.

v. Verification of the destruction of damaged merchandise.

w. Repair or warranty work on company goods or products after sale.

x. Any other activities carried on in advancement, promotion, or fulfillment of the business of the corporation.

501.1(3) *Corporate activities not creating taxability.* Under certain circumstances, businesses that would otherwise be subject to Iowa income taxes are shielded by law from liability.

a. State law protections. A foreign corporation will not be considered doing business in Iowa or deriving income from sources within Iowa if its only activities within Iowa are one or more of the activities listed in Iowa Code section 422.34A.

b. Federal preemption. Public Law 86-272, in general, prohibits any state from imposing an income tax on businesses whose only activities in the state are those described as protected in subrule 501.1(4).

c. De minimis activities. De minimis activities are those activities that, when taken together, establish only a trivial connection with the taxing state. An activity conducted within a taxing state on a regular or systematic basis or pursuant to a company policy (regardless of whether the policy is in writing) normally will not be considered trivial. Whether or not an activity consists of a trivial or nontrivial connection with a state is measured on both a qualitative and quantitative basis. If an activity either qualitatively or quantitatively creates a nontrivial connection with the taxing state, and is otherwise not protected, then the activity is not de minimis. Establishing that unprotected activities only account for a relatively small part of the business conducted within the taxing state is not determinative of whether the activities are de minimis.

501.1(4) *Public Law 86-272.* In general, Public Law 86-272 prohibits any state from imposing an income tax on businesses with income derived within the state from interstate commerce if the business's only business activity within the state consists of the solicitation of orders of tangible personal property by or on behalf of the person by its employees or representatives. Such orders must be sent outside the state for approval or rejection and, if approved, must be filled by shipment or delivery from a point outside the state to be within the purview of Public Law 86-272. Public Law 86-272 does not extend to those corporations that sell services, real estate, or intangibles in more than one state or to domestic corporations.

a. Solicitation of orders. "Solicitation of orders," within Public Law 86-272, is limited to those activities that explicitly or implicitly propose a sale or that are entirely ancillary to requests for purchases. Activities that are entirely ancillary to requests for purchases are ones that serve no independent business function apart from their connection to the solicitation of orders.

b. Activities protected under Public Law 86-272. If the only activities in Iowa of a foreign corporation selling tangible personal property are those of the type described in the nonexclusive list below, the corporation is protected from the Iowa corporation income tax law by Public Law 86-272.

(1) Soliciting orders for sales of tangible personal property by any type of advertising.

(2) The lease or ownership of motor vehicles for use by salespersons in conducting protected activities.

(3) Salespersons' negotiation of a price for a product, subject to approval or rejection outside the taxing state of such negotiated price and solicited order.

(4) Demonstration by salesperson, prior to the sale, of how the corporation's product works.

(5) Delivery of goods to customers by foreign corporation in its own or leased vehicles from a point outside the taxing state. Delivery does not include nonimmune activities, such as picking up damaged goods.

(6) Collection of state or local-option sales taxes or state use taxes from customers.

(7) Audit of inventory levels by salespersons to determine if corporation's customer needs more inventory.

(8) Recruitment, training, evaluation, and management of salespersons pertaining to solicitation of orders.

(9) Salespersons' intervention/mediation in credit disputes between customers and non-Iowa located corporate departments.

(10) Use of hotel rooms and homes for sales-related meetings pertaining to solicitation of orders.

(11) Furnishing and setting up display racks and advising customers on the display of the business's products without charge or other consideration.

(12) Carrying samples and promotional materials only for display or distribution without charge or other consideration.

(13) Short-term display of products at an instate location.

(14) Mere forwarding of customer questions, concerns, or problems by salespersons to non-Iowa locations.

(15) Providing post-sale assistance to in-state customers by posting a list of static FAQ with answers on the business's website.

(16) Placing internet cookies onto the computers or other devices of in-state customers that only gather customer information for purposes entirely ancillary to the solicitation of orders for tangible personal property, such as to remember items that customers have placed in their shopping cart during a current web session, to store personal information customers have provided to avoid the need for the customers to re-input the information when they return to the seller's website, and to remind customers what products they have considered during previous sessions. The cookies perform no other function, and these are the only types of cookies delivered by the business to its customers' computers or other devices.

(17) Offering for sale only items of tangible personal property on its website. The website enables customers to search for items, read product descriptions, select items for purchase, choose among delivery options, and pay for the items.

c. Activities not protected under Public Law 86-272. Nonsolicitation activities, including those listed in this paragraph, are not protected by Public Law 86-272. Activities that take place after a sale ordinarily will not be entirely ancillary to a request for purchases and, therefore, ordinarily will not be considered solicitation of orders.

(1) Installation or assembly of the business's product.

(2) Ownership or lease of real estate by corporation.

(3) Solicitation of orders for, or sale of, services or real estate.

(4) Sale of tangible personal property (as opposed to solicitation of orders).

(5) Performance of services within Iowa.

(6) Maintenance of a stock of inventory.

(7) Existence of an office or other business location.

(8) Managerial activities pertaining to nonsolicitation activities.

(9) Collections on regular or delinquent accounts.

(10) Technical assistance and training given after the sale to purchaser and user of the business's products.

(11) The repair or replacement of faulty or damaged goods.

(12) The pickup of damaged, obsolete, or returned merchandise from purchaser or user.

(13) Rectification of or assistance in rectifying any product complaints, shipping complaints, etc., if more is involved than relaying complaints to a non-Iowa location.

(14) Delivery of corporate merchandise inventory to corporation's distributors or dealers on consignment.

(15) Maintenance of personal property that is not related to solicitation of orders.

(16) Participation in recruitment, training, monitoring, or approval of servicing distributors, dealers, or others where purchasers of the business's products can have such products serviced or repaired.

(17) Inspection or verification of faulty or damaged goods.

(18) Inspection of the customer's installation of the business's product.

(19) Research.

(20) Salespersons' use of part of their homes or other places as an office if the corporation pays for such use.

(21) The use of samples for replacement or sale and storage of such samples at home or in rented space.

(22) Removal of old or defective products.

(23) Verification of the destruction of damaged merchandise.

(24) Independent contractors, agents, brokers, representatives and other individuals or entities who act on behalf of or at the direction of the corporation and who do non-de minimis amounts of nonsolicitation activities in Iowa. However, the maintenance of an office in Iowa or the making of sales in Iowa by independent contractors does not remove the corporation from the protection of Public Law 86-272. "Independent contractors" means commission agents, brokers, or other independent contractors who are engaged in selling or soliciting orders for the sale of tangible

personal property or perform other services for more than one principal and who hold themselves out as such in the regular course of their business activities. If a person is subject to the direct control of the foreign corporation, that person may not qualify as an independent contractor.

(25) Entering into franchising or licensing agreements, selling or otherwise disposing of franchises and licenses, or selling or otherwise transferring tangible personal property pursuant to such franchise or license by the franchisor or licensor to its franchisee or licensee within the state.

(26) Activities performed by an employee who telecommutes on a regular basis from within Iowa unless the activities constitute the solicitation of orders for sales of tangible personal property or are entirely ancillary to such solicitation.

(27) Conducting an activity not listed in this subrule that is not entirely ancillary to requests for orders, even if the activity helps to increase purchases.

(28) Other activities not entirely ancillary to solicitation, including any activity that a corporation has a reason to do independent of soliciting customers to purchase products (such as repair, installation, service-type activities, or collection on accounts) regardless of whether that activity is performed by its sales force operating in Iowa.

(29) Non-de minimis activities. Any nonsolicitation activities conducted only on a de minimis basis within the state are also protected under Public Law 86-272. The relative economic importance of unprotected in-state activities, as compared to protected activities, does not determine whether the conduct of the unprotected activities within the taxing state is inconsistent with the limited protection afforded by Public Law 86-272. If a foreign corporation has greater than a de minimis amount of Iowa nonsolicitation activity that includes activity of the types described in this list, whether done by the salesperson, other employee, or other representative, it is not protected from the Iowa corporation income tax by Public Law 86-272.

(30) Provide post-sale assistance to in-state customers via either electronic chat or email that customers initiate by clicking on an icon on the business's website. For example, the business regularly advises customers on how to use products after they have been delivered.

(31) Solicit and receive online applications for its branded credit card via the business's website. The issued cards will generate interest income and fees for the business.

(32) Place internet cookies onto the computers or other electronic devices of in-state customers that gather customer search information that will be used to adjust production schedules and inventory amounts, develop new products, or identify new items to offer for sale.

(33) Remotely fix or upgrade products previously purchased by its in-state customers by transmitting code or other electronic instructions to those products via the internet.

(34) Offer and sell extended warranty plans via its website to in-state customers who purchase the business's products.

(35) Contract with a marketplace facilitator that facilitates the sale of the business's products on the facilitator's online marketplace and that maintains inventory, including some of the business's products, at fulfillment centers in Iowa.

(36) Contract with in-state customers to stream videos and music to electronic devices for a charge.

501.1(5) *Taxation of corporations having only intangible property located or having a situs in Iowa.* Corporations whose only connection with Iowa is their ownership of intangible property located or having a situs in Iowa are subject to Iowa income tax and must file an Iowa income tax return. In the event that the intangible property interest is a general or limited partnership interest, the location or situs of that partnership interest is the place(s) where the partnership conducts business. The following nonexclusive examples illustrate how this subrule applies.

EXAMPLE 1: A, a corporation with a commercial domicile in State X, has a limited partnership interest in a partnership that does a regular business in Iowa. A has no physical presence in Iowa and has no other contact with Iowa. A's interest in the limited partnership is intangible personal property. A is required to file an Iowa income tax return because A's intangible personal property limited partnership interest has a business situs in Iowa and generates income for A from its business in Iowa.

EXAMPLE 2: C, a corporation with a commercial domicile in State X, owns trademarks and trade names that it, by license agreements, allows other corporations to use. Some of those other corporations do business in Iowa. The trademarks and trade names are used by these other corporations at their Iowa stores in connection with their business activities at those stores. C has no physical presence in Iowa and has no other contact with Iowa. C is paid royalties of 1 percent of net sales of the licensed products or services. C is required to file an Iowa income tax return because C's intangible property interests in the trademarks and trade names have situses in Iowa.

EXAMPLE 3: D, a corporation with a commercial domicile in Iowa, is a holding company that does not sell any tangible personal property or sell any business service but that owns the stock of five subsidiaries, all of which do business outside of Iowa. D has no physical presence outside of Iowa and has no other contact outside of Iowa. D has a unitary relationship with each subsidiary. Under these circumstances, the stock is not an integral part of each subsidiary's business, so the stock does not have a location or situs outside of Iowa. The location or situs of the stock is in Iowa because D's commercial domicile is in Iowa. Accordingly, all of the dividends from the stock paid to D and any capital gains incurred as a result of D's sale of the stock are wholly taxed by Iowa.

EXAMPLE 4: E, a corporation with a commercial domicile in Iowa, owns trademarks and trade names that it, by license agreements, allows other corporations located outside of Iowa to use. The trademarks and trade names are used by these other corporations at their non-Iowa stores in connection with their business activities at those stores. E has no physical presence outside of Iowa and has no other contact outside of Iowa. E has business activities in Iowa. The fees and royalties paid to E are part of E's unitary business income. Under these circumstances, E is entitled to apportion its net income within and without Iowa because E's intangible property interests in the trademarks and trade names have situses outside of Iowa and E has business activities in Iowa.

EXAMPLE 5: G, a corporation with a commercial domicile in State X, earns fees from the licensing of custom computer software. G has no physical presence in Iowa and no other contact with Iowa. G licenses the software to other corporations that do business in Iowa and that use the software in that business in Iowa. Under these circumstances, regardless of whether the fees constitute royalties or something else, the license fees are earned from intangible personal property with a location or situs in Iowa. Accordingly, G is required to file an Iowa income tax return.

EXAMPLE 6: H, a corporation with a commercial domicile in State X, has no physical presence in Iowa. H has entered into a contract with an independent contractor to solicit sales of H's magazines in Iowa. The independent contractor does business in Iowa and receives payment for the magazines and deposits the funds in an Iowa bank for H's account. H earns interest on this account. Under these circumstances, which are H's only contact with Iowa, H's interest-bearing account is an integral part of business activity in Iowa. Accordingly, H is required to file an Iowa income tax return and include the interest income in the numerator of the business activity formula.

EXAMPLE 7: J, a corporation with a commercial domicile in State X, earns income from mortgages that the corporation has purchased. J has no physical presence in Iowa and no other contact with Iowa. J earns interest income from the mortgages on property located in Iowa. Under these circumstances, the interest income is an integral part of business activity in Iowa. Accordingly, J is required to file an Iowa income tax return and include the interest income from the mortgages related to Iowa property in the numerator of the apportionment factor.

501.1(6) *Taxation of S corporations, domestic international sales corporations and real estate investment trusts.* 701—Chapter 402 has more information about S corporations, domestic international sales corporations and real estate investment trusts.

501.1(7) *Exempted corporations and organizations filing requirements.*

a. Exempt status. An organization that is exempt from federal income tax under Section 501 of the Internal Revenue Code, unless the exemption is denied under IRC Section 501, 502, 503 or 504, is exempt from Iowa corporation income tax, except as set forth in Iowa Code section 422.34(2)*"b."* The department may, if a question arises regarding the exempt status of an organization, request a copy of the federal determination letter.

b. Annual return. An organization or association that is exempt from Iowa corporation income tax because it is exempt from federal income tax is not required to file an annual income tax return unless it is subject to the tax on unrelated business income. The organization shall inform the director in writing of any revocation of or change of exempt status by the Internal Revenue Service within 30 days after the federal determination.

c. Tax on unrelated business income. A tax is imposed on the unrelated business income of corporations, associations, and organizations exempt from the general business tax on corporations by Iowa Code section 422.34(2) to the extent this income is subject to tax under the Internal Revenue Code.

(1) The exempt corporation, association, or organization must file Form IA 1120, Iowa Corporation Income Tax Return, to report its income. The exempt organization must make estimated tax payments if its expected income tax liability for the year is $1,000 or more.

(2) The tax return is due on the fifteenth day of the fifth month following close of the tax year and may be extended six months if 90 percent of the tax is paid prior to the due date.

(3) The starting point for computing Iowa taxable income is federal taxable income. Federal taxable income shall be adjusted as required in Iowa Code section 422.35.

(4) If the activities that generate the unrelated business income are carried on partly within and partly without the state, then the taxpayer should determine the portion of unrelated business income attributable to Iowa by the apportionment and allocation provisions of Iowa Code section 422.33.

(5) The provisions of 701—Chapters 500, 501, 502, 503, 504 and 505 apply to the unrelated business income of organizations exempt from the general business tax on corporations.

d. Out-of-state business performing work in Iowa due to state-declared disaster. 701—Chapter 276 contains filing requirements for 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.

501.1(8) *Income tax of corporations in liquidation.* When a corporation is in the process of liquidation, or in the hands of a receiver, the income tax returns must be made under oath or affirmation of the persons responsible for the conduct of the affairs of such corporations and must be filed at the same time and in the same manner as required of other corporations.

501.1(9) *Income tax returns for corporations dissolved.*

a. Corporations that have been dissolved during the income year must file income tax returns for the period prior to dissolution that has not already been covered by previous returns. Officers and directors are responsible for the filing of the returns and for the payment of taxes, if any, for the audit period provided by law.

b. Where a corporation dissolves and disposes of its assets without making provision for the payment of its accrued Iowa income tax, liability for the tax follows the assets so distributed and upon failure to secure the unpaid amount, suit to collect the tax may be instituted against the stockholders and other persons receiving the property, to the extent of the property received, except bona fide purchasers or others as provided by law.

501.1(10) *Income tax returns for corporations storing goods in an Iowa warehouse.* Foreign corporations are not required to file income tax returns if their only activities in Iowa are the storage of goods for a period of 60 consecutive days or less in a warehouse for hire located in Iowa, provided that the foreign corporation transports or causes a carrier to transport such goods to that warehouse and that none of these goods are delivered or shipped to a purchaser in Iowa. The following nonexclusive examples illustrate how this subrule applies.

EXAMPLE 1: A, a foreign corporation, stores goods in a warehouse for hire in Iowa for a period of 45 consecutive days. The goods are then delivered to a purchaser outside Iowa. If this is A's only activity in Iowa, A is not required to file an Iowa income tax return.

EXAMPLE 2: B, a foreign corporation, stores goods in a warehouse for hire in Iowa for a period of 75 consecutive days. The goods are then delivered to a purchaser outside Iowa. B is required to file an Iowa income tax return because the goods were stored in Iowa for more than 60 consecutive days.

EXAMPLE 3: C, a foreign corporation, stores goods in a warehouse for hire in Iowa for a period of 30 consecutive days. One percent of these goods are shipped to a purchaser in Iowa, and the other 99 percent are shipped to a purchaser outside Iowa. C is required to file an Iowa income tax return because a portion of the goods were shipped to a purchaser in Iowa.

EXAMPLE 4: D, a foreign corporation, has retail stores in Iowa. D also stores goods in a warehouse for hire in Iowa for a period of 30 consecutive days. The goods are then delivered to a purchaser outside Iowa. D is required to file an Iowa income tax return because its Iowa activities are not limited to the storage of goods in a warehouse for hire in Iowa.

EXAMPLE 5: E, a foreign corporation, has goods delivered by a common carrier, F, into a warehouse for hire in Iowa. The goods are stored in the warehouse for a period of 40 consecutive days and are then delivered to a purchaser outside Iowa. If this is E's only activity in Iowa, E is not required to file an Iowa income tax return. However, F is required to file an Iowa income tax return because F derives income from transportation operations in Iowa.

501.1(11) *Political organizations.* Political organizations described in IRC Section 527 that are domiciled in Iowa and are required to file federal Form 1120-POL and pay federal corporation income tax are subject to Iowa corporation income tax to the same extent as they are subject to federal corporation income tax.

501.1(12) *Homeowners associations.* Homeowners associations described in IRC Section 528 that are domiciled in Iowa and are required to file federal Form 1120-H and pay federal corporation income tax are subject to Iowa corporation income tax to the same extent as they are subject to federal corporation income tax.

This rule is intended to implement Iowa Code chapter 422.

701—501.2(422) Time and place for filing return.

501.2(1) *Returns of corporations.* The due date for all corporations, except for nonprofits subject to the unrelated business income tax (UBIT), and cooperative associations as defined in IRC Section 6072(d), is the last day of the fourth month following the close of the taxpayer's taxable year, whether the return is made on the basis of the calendar year or the fiscal year, or the last day of the period covered by an extension of time granted by the director. Iowa Code section 421.9A contains information on due dates that fall on a Saturday, Sunday, or holiday. If a return is placed in the mail, properly addressed and postage paid on or before the due date for filing, no penalty will attach should the return not be received until after that date. Mailed returns should be addressed as provided in the form instructions.

501.2(2) *Returns of cooperatives.* A return of income for cooperatives, defined in IRC Section 6072(d), must be filed on or before the fifteenth day of the ninth month following the close of the taxpayer's taxable year.

501.2(3) *Nonprofits subject to UBIT.* A return of income for nonprofits subject to UBIT must be filed on or before the fifteenth day of the fifth month following the close of the taxpayer's taxable year.

501.2(4) *Short period returns.* Where under a provision of the Internal Revenue Code, a corporation is required to file a tax return for a period of less than 12 months, a short period Iowa return must be filed for the same period. The short period Iowa return is due 45 days after the federal due date, not considering any federal extension of time to file.

This rule is intended to implement Iowa Code sections 422.21 and 422.24.

701—501.3(422) Method for determination of the tax rates. When the net corporate income tax receipts in the preceding fiscal year are sufficient to trigger a rate reduction under Iowa Code section 422.33(1)*"b,"* the department will adjust the corporate income tax rates according to the following method.

501.3(1) The department will use data from corporate tax returns for the most recent tax years for which the department has sufficient data available to calculate corporate income tax receipts for the applicable fiscal year as described in subrules 501.3(2) and 501.3(3).

501.3(2) The department will first estimate what the corporate tax revenue would be for the current tax year and the two preceding tax years corresponding to the fiscal year in question using the applicable corporate income tax rates.

501.3(3) The department will then apply lower marginal tax rates for those tax years to determine what marginal tax rates would have generated $700 million in net corporate income tax receipts in the preceding fiscal year.

501.3(4) In reducing the marginal tax rates, the department will first reduce the highest marginal rate until it is equal to the next highest rate, then reduce the two highest rates by equal amounts until there is a single rate of 5.5 percent.

501.3(5) The tax rates will be rounded down to the nearest one-tenth of 1 percent.

501.3(6) This rule will cease to be applicable by operation of law January 1 of the first year in which the corporate income tax rate is reduced to a single rate of 5.5 percent.

This rule is intended to implement Iowa Code section 422.33.

701—501.4(422) Form for filing.

501.4(1) *Use and completeness of prescribed forms.*

a. Returns shall be made by corporations on forms supplied by the department. Each question shall be answered and each direction complied with in the same manner as if the forms and instructions were embodied in these rules.

b. Returns received that are not completed but merely state "see schedule attached" are not valid. This may result in the imposition of penalties and interest due to the return being filed after the due date.

501.4(2) *Form for filing—corporations.*

a. Corporations are required to file a complete Iowa return if they are doing business in Iowa or deriving income from sources within Iowa. Corporations must also include a complete copy of their federal corporation income tax return as filed with the Internal Revenue Service with the filing of their Iowa return.

b. When a corporation is included in the filing of a consolidated federal income tax return, the corporation income tax return shall include a schedule of the consolidating income statements as properly computed for federal income tax purposes showing the income and expenses of each member of the consolidated group and include a schedule of capital gains on a separate basis. In those instances where the corporation is involved in the filing of a consolidated federal income tax return, the credit computations shall be reported on a separate entity basis. Rule 701—502.2(422) provides more information about filing Iowa consolidated returns.

501.4(3) *Amended returns.* If the amount of income reported to be federal net income, Iowa taxable income, or any other item was erroneously stated on the Iowa return, or changed by Internal Revenue Service audit, or otherwise, the taxpayer shall file an amended Iowa return along with supporting schedules, to include the amended federal return and a copy of the federal revenue agent's report if applicable.

This rule is intended to implement Iowa Code sections 422.21 and 422.36.