

422.25 Computation of tax, interest, and penalties — limitation.

1. a. For purposes of [this subsection](#):

(1) “*Federal adjustment*” means a change to an item or amount required to be determined under the Internal Revenue Code and the regulations thereunder that is used by the taxpayer to compute state tax owed whether such change results from action by the internal revenue service, or the filing of a timely amended federal return or timely federal refund claim. A federal adjustment is positive to the extent that it increases Iowa taxable income as determined under [this title](#) and is negative to the extent that it decreases Iowa taxable income as determined under [this title](#).

(2) “*Federal adjustments report*” means the method or form required by the department by rule to report final federal adjustments or final federal partnership adjustments as defined in [section 422.25A](#), and in the case of any entity taxed as a partnership or S corporation for federal income tax purposes, identifies all owners that hold an interest directly in such entity and provides the effect of the final federal adjustments on such owner’s Iowa income.

(3) “*Final determination date*” means the following:

(a) Except as provided in subparagraph divisions (b) and (c), for federal adjustments arising from an internal revenue service audit or other action by the internal revenue service, the final determination date is the first day on which no federal adjustments arising from that audit or other action remain to be finally determined, whether by internal revenue service decision with respect to which all rights of appeal have been waived or exhausted, by agreement, or, if appealed or contested, by a final decision with respect to which all rights of appeal have been waived or exhausted. For agreements required to be signed by the internal revenue service and the taxpayer, the final determination date is the date on which the last party signed the agreement.

(b) For federal adjustments arising from an internal revenue service audit or other action by the internal revenue service, if the taxpayer filed as a member of a consolidated return under [section 422.37](#), the final determination date is the first day on which no related federal adjustments arising from that audit or other action remain to be finally determined, as described in subparagraph division (a), for the entire group.

(c) For federal adjustments arising from a timely filed amended federal return or a timely filed federal refund claim, or if it is a federal adjustment reported on a timely amended federal return or other similar report filed pursuant to section 6225(c) of the Internal Revenue Code, the final determination date is the day on which the amended return, refund claim, or other similar report was filed.

(4) “*Final federal adjustment*” means a federal adjustment after the final determination date for that federal adjustment has passed.

b. Within three years after the return is filed or within three years after the return became due, including any extensions of time for filing, whichever time is the later, the department shall examine the return and determine the tax. However, if the taxpayer omits from income an amount which will, under the Internal Revenue Code, extend the statute of limitations for assessment of federal tax to six years under the federal law, the period for examination and determination is six years.

c. (1) The period for examination and determination of the correct amount of tax is unlimited in the case of a false or fraudulent return made with the intent to evade tax or in the case of a failure to file a return.

(2) If a person required to file a return with the department fails to file the return with the department, the department may, at any time, estimate the tax due based upon information or knowledge the department is able to obtain.

(3) If the department estimates an amount of tax under subparagraph (2), the following shall apply:

(a) The department shall issue a notice of assessment to the person for which the tax is estimated in accordance with [section 421.60](#). The notice of assessment shall not be appealable pursuant to [section 422.28](#) or [422.29](#), except to appeal the determination that the person is required to file a return.

(b) The department shall include a statement with the notice that if the person files a

return within three years from the date on the notice of assessment, the department may replace the assessment with the amount shown due on the person's return, plus any applicable penalty and interest, and the department may examine that return and determine the tax, penalty, and interest within the period provided in [this section](#).

(c) If the person fails to file a return within three years from the date on the notice of assessment, the person may pay the tax, penalty, and interest and file a refund claim within the time period provided in [section 422.73](#), or may request relief under [section 421.5](#).

d. In lieu of the period of limitation for any prior year for which an overpayment of tax or an elimination or reduction of an underpayment of tax due for that prior year results from the carryback to that prior year of a net operating loss or net capital loss, the period is the period of limitation for the taxable year of the net operating loss or net capital loss which results in the carryback.

e. (1) In addition to the applicable period of limitation for examination and determination in paragraph "b", "c", or "d", the department may make an examination and determination at any time within one year from the date of receipt by the department of a federal adjustments report with respect to a final federal adjustment or final federal partnership adjustment as defined in [section 422.25A](#) for a particular tax year. In order to begin the running of the one-year period, the federal adjustments report related to the final federal adjustment or final federal partnership adjustment shall be transmitted to the department by the taxpayer in the form and manner specified by the department by rule.

(2) The department in its discretion may adopt rules to establish a de minimis amount for which subparagraph (1) shall not apply and the taxpayer shall not be required to file a federal adjustments report.

(3) The department may in its discretion and when administratively feasible adopt a process through rule by which a taxpayer may make estimated payments of tax expected to result from a pending internal revenue service audit prior to the filing of a federal adjustments report with the department. The process shall provide that the estimated tax payments shall be credited against any tax liability ultimately found to be due to the state from the internal revenue service audit and will limit the accrual of further statutory interest on that liability. The process shall also provide that if the estimated tax payments exceed the final tax liability and statutory interest ultimately determined to be due, the taxpayer is entitled to a refund or credit for the excess, without interest, provided the taxpayer files a federal adjustments report, or a claim for refund or credit of tax under [section 422.73](#), no later than one year following the final determination date.

f. The period of examination and determination is unlimited under this title in the case of any action by the department to recover or rescind any tax expenditure as defined by [section 2.48, subsection 1](#), or any other incentive or assistance, due to a failure to meet or maintain the requirements of a program administered by the economic development authority.

2. a. If the tax found due under [subsection 1](#) is greater than the amount paid, the department shall compute the amount due, together with interest and penalties as provided in paragraph "b", and shall mail a notice of assessment to the taxpayer and, if applicable, to the taxpayer's authorized representative of the total, which shall be computed as a sum certain, with interest computed to the last day of the month in which the notice is dated.

b. In addition to the tax or additional tax determined by the department under [subsection 1](#), the taxpayer shall pay interest on the tax or additional tax at the rate in effect under [section 421.7](#) for each month counting each fraction of a month as an entire month, computed from the date the return was required to be filed. In addition to the tax or additional tax, the taxpayer shall pay a penalty as provided in [section 421.27](#).

3. a. If the amount of the tax as determined by the department is less than the amount paid, the excess shall be refunded with interest in accordance with [section 421.60, subsection 2, paragraph "e"](#).

b. Notwithstanding [section 421.60, subsection 2, paragraph "e"](#), and paragraph "a" of [this subsection](#), when the net operating loss or net capital loss carryback to a prior year eliminates or reduces an underpayment of tax due for an earlier year, the full amount of the underpayment of tax shall bear interest at the rate in effect under [section 421.7](#) for each month counting each fraction of a month as an entire month from the due date of the tax for

the earlier year to the last day of the taxable year in which the net operating loss or net capital loss occurred.

4. *a.* All payments received must be credited first to the penalty and interest accrued and then to the tax due. If payments in multiple tax periods are unpaid, payments received shall be credited first to the penalty and interest accrued and then tax due for the earliest period, and then credited to each following tax period in chronological order from the earliest tax period to the latest tax period. Payments required to be made within a tax period must be credited first to the earliest deposit period within the tax period. For purposes of [this subsection](#), the department shall not reapply prior payments made on or before the due date of the original return by the taxpayer to penalty or interest determined to be due after the date of those prior payments, except that the taxpayer and the department may agree to apply payments in accordance with rules adopted by the director when there are both agreed and unagreed to items as a result of an examination.

b. As used in [this subsection](#), “*tax period*” means a period of time for which a return is required.

5. A person or withholding agent required to supply information, to pay tax, or to make, sign, or file a deposit form or return required by [this subchapter](#), who willfully makes a false or fraudulent deposit form or return, or willfully fails to pay the tax, supply the information, or make, sign, or file the deposit form or return, at the time or times required by law, is guilty of a fraudulent practice.

6. The certificate of the director to the effect that a tax has not been paid, that a return has not been filed, or that information has not been supplied, as required under the provisions of [this subchapter](#) shall be prima facie evidence thereof except as otherwise provided in [this section](#).

7. The periods of limitation provided by [this section](#) may be extended by the taxpayer by signing a waiver agreement to be provided by the department. The agreement shall stipulate the period of extension and the year or years to which the extension applies. It shall provide that a claim for refund may be filed by the taxpayer at any time during the period of extension.

8. A person or withholding agent who willfully attempts in any manner to defeat or evade a tax imposed by [this subchapter](#) or the payment of the tax, upon conviction for each offense is guilty of a class “D” felony.

9. A prosecution for any offense defined in [this section](#) must be commenced within six years after the commission thereof, and not after.

10. If a taxpayer files an amended return within sixty days prior to the expiration of the applicable period of limitations described in [subsection 1](#), the department has sixty days from the date of receipt of the amended return to issue an assessment for any applicable tax, interest, or penalty.

[C35, §6943-f21; C39, §6943.057; C46, 50, 54, 58, 62, 66, 71, 73, 75, 77, 79, 81, §422.25; 81 Acts, ch 131, §8, ch 133, §2, 4, ch 134, §1, 2; 82 Acts, ch 1180, §3, 8]

83 Acts, ch 160, §5; 84 Acts, ch 1025, §1; 84 Acts, ch 1173, §5; 86 Acts, ch 1007, §26; 86 Acts, ch 1241, §19; 88 Acts, ch 1028, §29; 89 Acts, ch 251, §19; 90 Acts, ch 1172, §9; 94 Acts, ch 1133, §3, 4, 16; 95 Acts, ch 83, §3, 34; 99 Acts, ch 151, §8, 9, 89; 99 Acts, ch 152, §3, 40; 2002 Acts, ch 1150, §5; 2013 Acts, ch 110, §1; 2018 Acts, ch 1161, §6, 15, 16; 2020 Acts, ch 1062, §94; 2020 Acts, ch 1118, §17, 31, 63, 71; 2021 Acts, ch 151, §4; 2022 Acts, ch 1032, §60; 2023 Acts, ch 115, §26, 40

Referred to in §99G.30A, 257.22, 321.105A, 421.27, 422.16, 422.16C, 422.25A, 422.25C, 422.39, 422.66, 422.73, 422D.3, 423.42, 423A.6, 423B.6, 423C.4, 423D.4, 423G.5, 428A.8, 452A.23

Fraudulent practices, see §714.8 – 714.14

2020 strike and rewrite of subsections 1 and 2 applies to federal adjustments and federal partnership adjustments that have a final determination date after July 1, 2020; 2020 Acts, ch 1118, §71

Legislative intent regarding enactment of subsection 1, paragraph f; 2020 Acts, ch 1118, §30

2023 amendment to subsection 1, paragraph c effective January 1, 2024; 2023 Acts, ch 115, §40

Subsection 1, paragraph c amended