

422.16C Pass-through entity — election — entity-level tax — credit.

1. As used in [this section](#), unless the context otherwise requires:

a. “Partnership” means the same as defined in [section 422.25A](#), except a “partnership” does not include a pass-through entity that is a publicly traded partnership as defined in section 7704 of the Internal Revenue Code.

b. “Taxpayer” means a partnership or an S corporation.

2. For tax years beginning on or after January 1, 2022, notwithstanding any other provision of law to the contrary, a taxpayer may elect to be subject to the provisions of [this section](#). [This section](#) only applies to tax years for which the limitation on individual deductions applies under section 164(b)(6) of the Internal Revenue Code.

3. a. A separate election shall be made for each tax year on a form and at a time prescribed by the department. An election shall be irrevocable once made and shall be binding on the taxpayer and all partners or shareholders of the taxpayer.

b. If an election is made under [this section](#), a taxpayer shall not be required to file a composite return for the same tax year pursuant to [section 422.16B](#).

4. a. A taxpayer making an election under [this section](#) shall be subject to tax in an amount equal to the rate under [section 422.5](#), imposed against the taxable income of the taxpayer for the taxable year properly determined under [this chapter](#) and allocated and apportioned to the state under the rules adopted by the department. The tax shall be due with the taxpayer’s return required under [this chapter](#).

b. The tax under [this section](#) shall be reduced by the credit provided in [subsection 5](#), paragraph “b”, and the franchise tax credit in [section 422.11](#), [subsection 2](#), and the composite credit in [section 422.16B](#), [subsection 4](#). Any other tax credits shall not be claimed by the taxpayer against the tax imposed under [this section](#). A net operating loss or other loss carryback or carryforward shall not be claimed by the taxpayer.

5. a. For a taxable year in which a taxpayer made an election under [this section](#), for the partners or shareholders of the taxpayer, the taxes imposed under this subchapter, less the credits allowed under [section 422.12](#), or the taxes imposed under [subchapter III](#) or [V](#), as applicable, shall be reduced by a credit equal to the product of the following amounts:

(1) The ratio of the partner’s or shareholder’s share of the taxpayer’s taxable income over the taxpayer’s total taxable income multiplied by the state tax liability actually paid by the taxpayer.

(2) The difference between one hundred percent and the individual income tax rate in effect for the tax year.

b. If the taxpayer is itself a partner or shareholder of another taxpayer making an election under [this section](#), the credit under [this subsection](#) shall be allowed.

c. Any credit in excess of the tax liability is refundable. In lieu of claiming a refund, the partner or shareholder may elect to have the overpayment shown on the partner’s or shareholder’s final, completed return credited to the tax liability for the following tax year.

6. A nonresident individual who is a partner or shareholder of a taxpayer for a tax year in which an election is made under [this section](#) shall not be required to file an individual income tax return under [section 422.13](#) for such tax year if the only Iowa source income of the individual is from a taxpayer making the election under [this section](#), the credit allowed to the partner or shareholder equals or exceeds the tax liability of the partner or shareholder for the tax imposed in the tax year the election is made, and if the taxpayer files and pays the tax due under [this section](#).

7. A taxpayer making an election under [this section](#) is liable for the entity-level tax imposed pursuant to [this section](#), including applicable penalties and interest. [This section](#) shall not prohibit the department from assessing direct or indirect partners and shareholders for taxes owed in the event that the taxpayer fails to timely make any payment required by [this section](#) for any reason.

8. In addition to and not in lieu of any period of limitation provided in [section 422.25](#), if a taxpayer files an amended return that requests a refund of tax previously paid within one year prior to the expiration of the department’s applicable period of limitations in [section 422.25](#), the department has one year from the date of receipt of the amended return to assess

any direct or indirect partners and shareholders related to the reduction of any tax credit provided under [subsection 5](#).

9. The department shall adopt rules pursuant to [chapter 17A](#) to administer [this section](#).
[2023 Acts, ch 78, §2, 6, 7](#); [2024 Acts, ch 1094, §8, 9, 16, 17](#)

Referred to in [§422.11](#), [422.16](#), [422.38](#), [422.85](#)

A taxpayer making an election under this section is not required to make estimated tax payments for a tax year beginning prior to May 11, 2023; see [2023 Acts, ch 78, §4](#)

The department of revenue may waive penalty and interest for a return filing or tax payment related to an election under this section for a tax year ending prior to May 11, 2023; see [2023 Acts, ch 78, §5](#)

Section applies retroactively to January 1, 2022, for tax years beginning on or after that date; [2023 Acts, ch 78, §7](#)

2024 amendment to subsection 4, paragraph a applies to tax years beginning on or after January 1, 2025; [2024 Acts, ch 1094, §17](#)

2024 amendment to subsection 5, paragraph a, subparagraph (2) applies to tax years beginning on or after January 1, 2025; [2024 Acts, ch 1094, §17](#)