

422.25A Reporting and treatment of certain partnership adjustments.

1. *Definitions.* As used in [this section](#) and [sections 422.25B](#) and [422.25C](#), unless the context otherwise requires:

a. “*Administrative adjustment request*” means the same as provided in section 6227 of the Internal Revenue Code.

b. “*Audited partnership*” means a partnership subject to a final federal partnership adjustment resulting from a partnership level audit.

c. “*C corporation*” means an entity that elects or is required to be taxed as a corporation under title 26, chapter 1, subchapter A, part 2, of the Internal Revenue Code.

d. “*Corporate partner*” means a C corporation partner that is subject to tax pursuant to [section 422.33](#).

e. “*Direct partner*” means a person that holds an interest directly in a partnership or pass-through entity.

f. “*Exempt partner*” means a partner that is exempt from taxation pursuant to [section 422.34](#).

g. “*Federal adjustments report*” means the same as defined in [section 422.25](#).

h. “*Federal partnership 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 a partnership and its direct and indirect partners to compute state tax owed for the reviewed year where such change results from a partnership level audit or an administrative adjustment request. A federal partnership 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](#). A federal adjustment reported on an amended federal return or other similar report filed pursuant to section 6225(c) of the Internal Revenue Code shall not be considered a federal partnership adjustment for purposes of [this section](#).

i. “*Federal partnership representative*” means the person the partnership designates for the taxable year as the partnership’s representative, or the person the internal revenue service has appointed to act as the federal partnership representative, pursuant to section 6223(a) of the Internal Revenue Code and the regulations thereunder.

j. “*Fiduciary partner*” means a partner that is a fiduciary that is subject to tax pursuant to [sections 422.5](#) and [422.6](#).

k. “*Final determination date*” means any one of the following dates:

(1) In the case of a federal partnership adjustment that arises from a partnership level audit, the first day on which no federal adjustments arising from that audit 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 audited partnership, the final determination date is the date on which the last party signed the agreement.

(2) In the case of a federal partnership adjustment that results from a timely filed administrative adjustment request, the day on which the administrative adjustment request was filed with the internal revenue service.

l. “*Final federal partnership adjustment*” means a federal partnership adjustment after the final determination date for that federal partnership adjustment has passed.

m. “*Indirect partner*” means a partner in a partnership or pass-through entity where such partnership or pass-through entity itself holds an interest directly, or through another indirect partner, in a partnership or pass-through entity.

n. “*Individual partner*” means a partner who is a natural person that is subject to tax pursuant to [section 422.5](#).

o. “*Nonresident partner*” means a partner that is not a resident partner as defined in [this subsection](#).

p. “*Partner*” means a person that holds an interest, directly or indirectly, in a partnership or pass-through entity.

q. “*Partnership*” means an entity subject to taxation under subchapter K of the Internal

Revenue Code and the regulations thereunder and includes but is not limited to a syndicate, group, pool, joint venture, or other unincorporated organization through or by means of which any business, financial operation, or venture is carried on and which is not, within the meaning of [this chapter](#), a trust, estate, or corporation.

r. “*Partnership level audit*” means an examination by the internal revenue service at the partnership level pursuant to subchapter C of title 26, subtitle F, chapter 63, of the Internal Revenue Code, as enacted by the Bipartisan Budget Act of 2015, Pub. L. No. 114-74, and as amended, which results in final federal partnership adjustments initiated and made by the internal revenue service.

s. “*Pass-through entity*” means an entity, other than a partnership, that is not subject to tax under [section 422.33](#) for C corporations but excluding an exempt partner. “*Pass-through entity*” includes but is not limited to S corporations, estates, and trusts other than grantor trusts.

t. “*Reallocation adjustment*” means a final federal partnership adjustment that changes the shares of items of partnership income, gain, loss, expense, or credit allocated to a partner that holds an interest directly in a partnership or pass-through entity. A positive reallocation adjustment means the portion of a reallocation adjustment that would increase Iowa taxable income for such partners, and a negative reallocation adjustment means the portion of a reallocation adjustment that would decrease Iowa taxable income for such partners.

u. “*Resident partner*” means any of the following:

- (1) For an individual partner, a “*resident*” as defined in [section 422.4](#).
- (2) For a fiduciary partner, one with situs in Iowa.
- (3) For all other partners, a partner whose headquarters or principal place of business is located in Iowa.

v. “*Reviewed year*” means the taxable year of a partnership that is subject to a partnership level audit from which final federal partnership adjustments arise, or otherwise means the taxable year of the partnership or pass-through entity that is the subject of a state partnership audit.

w. “*State partnership audit*” means an examination by the director at the partnership or pass-through entity level which results in adjustments to partnership or pass-through entity related items or reallocations of income, gains, losses, expenses, credits, and other attributes among such partners for the reviewed year.

x. “*Tiered partner*” means any partner that is a partnership or pass-through entity.

y. “*Unrelated business income*” means the income which is defined in section 512 of the Internal Revenue Code and the regulations thereunder.

2. *Application.* Partnerships and their direct partners and indirect partners shall report final federal partnership adjustments as provided in [this section](#).

3. *State pass-through representative.* Notwithstanding any other law to the contrary, the state pass-through representative for the reviewed year shall have the sole authority to act on behalf of the partnership or pass-through entity with respect to an action required or permitted to be taken by a partnership or pass-through entity under [this section](#) or [section 422.28](#) or [422.29](#) with respect to final federal partnership adjustments arising from a partnership level audit or an administrative adjustment request, and its direct partners and indirect partners shall be bound by those actions.

4. *Reporting and payment requirements for partnerships and their partners subject to final federal partnership adjustments.*

a. Unless an audited partnership makes the election in [subsection 5](#), a partnership shall do all of the following for all final federal partnership adjustments no later than ninety days after the final determination date:

- (1) File a completed federal adjustments report.
- (2) Notify each direct partner of such partner’s distributive share of the adjustments in the manner and form prescribed by the department by rule.
- (3) File an amended composite return under [section 422.13](#), Code 2021, or under [section 422.16B](#), as applicable, if one was originally required to be filed, and if applicable for withholding from partners, file an amended withholding report under [section 422.16](#), Code 2021, and pay the additional amount under [this title](#) that would have been due had

the final federal partnership adjustments been reported properly as required, including any applicable interest and penalties.

b. Unless an audited partnership paid an amount on behalf of the direct partners of the partnership pursuant to [subsection 5](#), all direct partners of the partnership shall do all of the following no later than one hundred eighty days after the final determination date:

(1) File a completed federal adjustments report reporting the direct partner's distributive share of the adjustments required to be reported to such partners under paragraph "a".

(2) If the direct partner is a tiered partner, notify all partners that hold an interest directly in the tiered partner of such partner's distributive share of the adjustments in the manner and form prescribed by the department by rule.

(3) If the direct partner is a tiered partner and subject to [section 422.13](#), Code 2021, or [section 422.16B](#), file an amended composite return under [section 422.13](#), Code 2021, or under [section 422.16B](#), as applicable, if such return was originally required to be filed, and if applicable for withholding from partners file an amended withholding report under [section 422.16, Code 2021](#), if one was originally required to be filed.

(4) Pay any additional amount under [this title](#) that would have been due had the final federal partnership adjustments been reported properly as required, including any applicable penalty and interest.

c. Unless a partnership or tiered partner paid an amount on behalf of the partners pursuant to [subsection 5](#), each indirect partner shall do all of the following:

(1) Within ninety days after the time for filing and furnishing statements to tiered partners and their partners as established by section 6226 of the Internal Revenue Code and the regulations thereunder, file a completed federal adjustments report.

(2) If the indirect partner is a tiered partner, within ninety days after the time for filing and furnishing statements to tiered partners and their partners as established by section 6226 of the Internal Revenue Code and the regulations thereunder but within sufficient time for all indirect partners to also complete the requirements of [this subsection](#), notify all of the partners that hold an interest directly in the tiered partner of such partner's distributive share of the adjustments in the manner and form prescribed by the department by rule.

(3) Within ninety days after the time for filing and furnishing statements to tiered partners and their partners as established by section 6226 of the Internal Revenue Code and the regulations thereunder, if the indirect partner is a tiered partner and subject to [section 422.13](#), Code 2021, or [section 422.16B](#), file an amended composite return under [section 422.13](#), Code 2021, or under [section 422.16B](#), as applicable, if such return was originally required to be filed, and if applicable for withholding from partners, file an amended withholding report under [section 422.16, Code 2021](#), if one was originally required to be filed.

(4) Within ninety days after the time for filing and furnishing statements to tiered partners and the partners of the tiered partners as established by section 6226 of the Internal Revenue Code and the regulations thereunder, pay any additional amount due under [this title](#), including any penalty and interest that would have been due had the final federal partnership adjustments been reported properly as required.

5. *Election for partnership or tiered partners to pay.*

a. An audited partnership, or a tiered partner of an audited partnership that receives a notification under [subsection 4](#) of a final federal partnership adjustment arising from a partnership level audit, may make an election to pay as provided under [this subsection](#).

b. An audited partnership or tiered partner shall make an election to pay under [this subsection](#) in the manner and form prescribed by the department. The audited partnership or tiered partner making an election to pay shall file a completed federal adjustments report, notify each of the direct partners of such partner's distributive share of the adjustments, and pay on behalf of its partners an amount calculated in paragraph "c", including any applicable penalty and interest. These requirements shall all be fulfilled within one of the following time periods:

(1) For the audited partnership, no later than ninety days after the final determination date of the audited partnership.

(2) For a direct tiered partner, no later than one hundred eighty days after the final determination date of the audited partnership.

(3) For an indirect tiered partner, within ninety days after the time for filing and furnishing statements to a tiered partner and the partner of the tiered partner, as established by section 6226 of the Internal Revenue Code and the regulations thereunder.

c. The amount due under [this subsection](#) from an audited partnership or tiered partner shall be calculated as follows:

(1) Exclude from final federal partnership adjustments and any positive reallocation adjustments the distributive share of such adjustments reported to an exempt partner that holds an interest directly in the audited partnership if the audited partnership is making the election or that holds an interest directly in the tiered partner if the tiered partner is making the election, but only to the extent the distributive share is not unrelated business income.

(2) Determine the total distributive share of all final federal partnership adjustments and positive reallocation adjustments as modified by [this title](#) that are reported to corporate partners, and to exempt partners to the extent the distributive share is unrelated business income, and allocate and apportion such adjustments as provided in [section 422.33](#) at the partnership or tiered partner level, and multiply the resulting amount by the maximum state corporate income tax rate pursuant to [section 422.33](#) for the reviewed year.

(3) Determine the total distributive share of all final federal partnership adjustments and positive reallocation adjustments as modified by [this title](#) that are reported to nonresident individual partners and nonresident fiduciary partners and allocate and apportion such adjustments as provided in [section 422.33](#) at the partnership or tiered partner level, and multiply the resulting amount by the highest individual income tax rate for the reviewed year.

(4) For the total distributive share of all final federal partnership adjustments and positive reallocation adjustments as modified by [this title](#) that are reported to tiered partners:

(a) Determine the amount of such adjustments which are of a type that would be subject to sourcing to Iowa under [section 422.8, subsection 2](#), paragraph “a”, as a nonresident, and then determine the portion of this amount that would be sourced to Iowa under those provisions as if the tiered partner were a nonresident.

(b) Determine the amount of such adjustments which are of a type that would not be subject to sourcing to Iowa under [section 422.8, subsection 2](#), paragraph “a”, as a nonresident.

(c) Determine the portion of the amount in subparagraph division (b) that can be established, as prescribed by the department by rule, to be properly allocable to indirect partners that are nonresident partners or other partners not subject to tax on the adjustments.

(d) Multiply the total of the amounts determined in subparagraph divisions (a) and (b), reduced by any amount determined in subparagraph division (c), by the highest individual income tax rate for the reviewed year.

(5) For the total distributive share of all final federal partnership adjustments and positive reallocation adjustments as modified by [this title](#) that are reported to resident individual partners and resident fiduciary partners, multiply that amount by the highest individual income tax rate for the reviewed year.

(6) (a) Total the amounts computed pursuant to subparagraphs (2) through (5) and calculate any interest and penalty as provided under [this title](#). Notwithstanding any provision of law to the contrary, interest and penalties on the amount due by the audited partnership or tiered partner shall be computed from the due date of the reviewed year return without extension, and shall be imposed as if the audited partnership or tiered partner was required to pay tax or show tax due on the original return for the reviewed year, except that a specified business subject to the penalty in [section 421.27, subsection 1](#), paragraph “b”, for the reviewed year shall not also be subject to the penalty in [section 421.27, subsection 1](#), paragraph “a”, on the amount due for that reviewed year pursuant to the election to pay.

(b) The director may establish rules providing for the calculation of amounts due under [this subsection](#) for federal partnership adjustments that affect state tax owed but that do not fit within the calculation in subparagraphs (2) through (5), such as tax credit changes. The director may establish rules that include changes related to state-specific issues following a state partnership audit in the election to pay and calculation of amounts due under [this subsection](#), including but not limited to allocation and apportionment. Interest and penalty shall be computed in the same manner as described in subparagraph division (a).

d. Adjustments subject to the election in [this subsection](#) do not include any adjustments arising from an administrative adjustment request.

e. An audited partnership or tiered partner not otherwise subject to any reporting or payment obligation to Iowa that makes an election under [this subsection](#) consents to be subject to the Iowa laws related to reporting, assessment, collection, and payment of Iowa tax, interest, and penalties calculated under the election.

6. *Modified reporting and payment method.* The department may adopt procedures for an audited partnership or tiered partner to enter into an agreement with the department to use an alternative reporting and payment method, including applicable time requirements or any other provision of [this section](#). The audited partnership or tiered partner must demonstrate that the requested method will reasonably provide for the reporting and payment of taxes, penalties, and interest due under the provisions of [this section](#). Application for approval of an alternative reporting and payment method must be made by the audited partnership or tiered partner within the time for making an election to pay under [subsection 5](#) and in the manner prescribed by the department. Approval of such an alternative reporting and payment method shall be at the discretion of the department.

7. *Effect of election by partnership or tiered partner and payment of amount due.*

a. The election made under [subsection 5](#) is irrevocable, unless in the discretion of the director, the director determines otherwise.

b. The amount determined in [subsection 5](#), when properly reported and paid by the audited partnership or tiered partner, shall be treated as paid on behalf of the partners of such audited partnership or tiered partner on the same final federal partnership adjustments, provided, however, that no partner may take any deduction or credit for the amount, claim a refund of the amount, or include the amount on such partner's Iowa return in any manner.

c. In the event another state offers to an audited partnership or tiered partner a similar election to pay state tax resulting from final federal partnership adjustments, nothing in [this subsection](#) shall prohibit a resident who holds an interest directly in that audited partnership or tiered partner, as the case may be, from claiming a credit for taxes paid by the resident to another state under [section 422.8, subsection 1](#), for any amounts paid by the audited partnership or tiered partner on such resident partner's behalf to another state, provided such payment otherwise meets the requirements of [section 422.8, subsection 1](#).

d. Nothing in [this section](#) shall prohibit the department from assessing direct partners and indirect partners for taxes they owe in the event that a partnership or tiered partner fails to timely make any report or payment required by [this section](#) for any reason.

8. *Assessments of additional Iowa income tax, interest, and penalties, and claims for refund, arising from final federal partnership adjustments.*

a. The department shall assess additional Iowa income tax, interest, and penalties arising from final federal partnership adjustments in the same manner as provided in [this title](#) unless a different treatment is provided by [this subsection](#). Since final federal partnership adjustments are determined at the partnership level, any assessment issued to partners shall not be appealable by the partner. The department may assess any taxes, including on-behalf-of amounts, interest, and penalties arising from the final federal partnership adjustments if it issues a notice of assessment to the partnership, tiered partner, or other direct or indirect partner on or before the expiration of the applicable limitations period specified in [section 422.25](#).

b. In addition to the period for claiming a refund or credit provided in [section 422.73, subsection 1](#), paragraph "a", and notwithstanding [section 422.73, subsection 1](#), paragraph "b", a partnership, tiered partner, or other direct or indirect partner, as the case may be, may file a claim for refund of Iowa income tax arising directly or indirectly from a final federal partnership adjustment arising from a partnership level audit on or before the date which is one year from the date the federal adjustments report for that final federal partnership adjustment was required to be filed by such person under [this section](#).

9. *Rules.* The department may adopt any rules pursuant to [chapter 17A](#) to implement [this section](#).

[2020 Acts, ch 1118, §64, 71; 2021 Acts, ch 76, §72; 2021 Acts, ch 86, §22 – 28, 31, 32; 2022 Acts, ch 1061, §45 – 49, 53, 54; 2023 Acts, ch 64, §105, 112, 114; 2024 Acts, ch 1094, §11, 16, 17](#)

Referred to in [§257.22, 421.27, 422.16B, 422.16C, 422.25, 422.25B, 422.25C, 422.39, 422D.3](#)

2021 amendments to subsections 1, 4, 5, 7, and 8 apply retroactively to July 1, 2020, and apply to federal adjustments and federal partnership adjustments that have a final determination date after July 1, 2020; 2021 Acts, ch 86, §32

2022 amendment to subsection 5, paragraph c, subparagraph (6), subparagraph division (a) applies retroactively to January 1, 2022, for tax years beginning on or after that date; 2022 Acts, ch 1061, §54

2024 amendment to subsection 5, paragraph c, subparagraphs (3), (4), and (5) applies to tax years beginning on or after January 1, 2025; 2024 Acts, ch 1094, §17