

422.16B Pass-through entity composite returns.

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

a. “*Nonresident member*” means a partner in a partnership as defined in [section 422.25A](#), a shareholder of an S corporation, or a beneficiary of an estate or trust, who is any of the following:

- (1) An individual who is not a resident of this state.
- (2) A partnership without a commercial domicile in this state.
- (3) A trust or estate without a situs in this state.
- (4) A C corporation or S corporation without a commercial domicile in this state.
- (5) A financial institution as defined in [section 422.61](#) without a commercial domicile in this state.

b. “*Pass-through entity*” includes any entity that is a partnership or a pass-through entity as those terms are defined in [section 422.25A](#).

c. “*Tiered pass-through entity*” means a member of a pass-through entity that is itself a pass-through entity.

2. a. (1) A pass-through entity shall file a composite return on behalf of all nonresident members and shall report and pay the income or franchise tax imposed under [this chapter](#) at the maximum state income or franchise tax rate applicable to the member under [section 422.5A](#), [422.33](#), or [422.63](#) on the nonresident members’ distributive shares of the income from the pass-through entity.

(2) The tax rate applicable to a tiered pass-through entity shall be the maximum state income tax rate under [section 422.5A](#).

b. The composite return is due and shall be filed by the due date of the pass-through entity’s annual return required under [section 422.14](#), [422.15](#), or [422.36](#), including extensions. The return shall be on a form prescribed by the department showing the total amounts paid or credited to the pass-through entity’s nonresident members, the amounts of income or franchise tax remitted in accordance with [this section](#), if any, and such other information as the department may require. A pass-through entity shall furnish to its nonresident members a record of the amount of Iowa income or franchise tax remitted on behalf of such nonresident member in the manner and form prescribed by the department.

c. The Iowa income or franchise tax on the composite return is due on and shall be paid by the due date of the pass-through entity’s annual return required under [section 422.14](#), [422.15](#), or [422.36](#), without extensions.

3. a. A pass-through entity is liable to the state for the payment of the tax required to be remitted under [this section](#), together with applicable interest and penalties, but is not liable to any nonresident member for any amount withheld from distributions to or from the distributive share of such nonresident member and remitted in compliance with [this section](#).

b. If a pass-through entity fails to pay any amount of tax required under [this section](#) and thereafter the tax is paid by the nonresident member, the amount of tax as paid by the nonresident member shall not be collected from the pass-through entity, but such payment by the nonresident member shall not relieve the pass-through entity from any penalty or interest associated with the failure to pay.

4. a. A nonresident member that has been included on a composite return filed pursuant to [this section](#) shall receive credit for Iowa income or franchise tax paid on the nonresident member’s behalf by the pass-through entity, and any amounts in excess of the nonresident member’s Iowa tax liability for the applicable tax period may be refunded to the nonresident member with interest in accordance with [section 421.60, subsection 2](#), paragraph “e”. The nonresident member’s Iowa return shall constitute a claim for refund for this purpose. In lieu of claiming a refund, the nonresident member may elect to have the overpayment shown on the nonresident member’s final, completed return for the taxable year credited to the taxpayer’s tax liability for the following taxable year.

b. A tiered pass-through entity shall be subject to the same requirements to file a composite return and pay tax under [this section](#) with respect to the distributive shares of the tiered pass-through entity’s income. Any Iowa income or franchise tax paid on the tiered

pass-through entity's behalf by another pass-through entity may be applied against that tiered pass-through entity's own composite tax remittance obligation imposed under [this section](#).

c. A nonresident individual included on a composite tax return filed pursuant to [this section](#) shall be relieved of the requirement to file an individual income tax return under [section 422.13](#) if income from the pass-through entity is the nonresident individual's only Iowa-source income.

5. A pass-through entity shall not be required to remit Iowa income or franchise tax on behalf of a nonresident member if any of the following apply:

a. The pass-through entity is a publicly traded partnership as defined in section 7704(b) of the Internal Revenue Code, provided the publicly traded partnership files with the department an information return that reports the name, address, taxpayer identification number, and any other information requested by the department for each unit holder with an income in this state from the publicly traded partnership in excess of five hundred dollars.

b. A composite return is not required as provided in [section 29C.24](#).

c. The pass-through entity meets any of the following requirements for the tax year:

(1) The pass-through entity is a financial institution subject to the franchise tax under [section 422.60](#) and files a franchise tax return required under [section 422.62](#) and pays any franchise tax shown due on the return.

(2) The pass-through entity wholly owns one or more financial institutions subject to the franchise tax under [section 422.60](#) that are treated as disregarded entities for federal and Iowa income tax purposes, and at least ninety percent of the gross income of the pass-through entity for the tax year is also reportable income on the franchise tax return of the financial institutions wholly owned by the pass-through entity, and such financial institutions file the franchise tax returns required under [section 422.62](#) and pay any franchise tax shown due on the franchise tax return.

d. The department determines by rule or through a ruling that the nonresident member's income should not be subject to composite return reporting, such as a member that is exempt from Iowa income or franchise tax.

6. If the director determines that it is necessary for the efficient administration of [this chapter](#), the director may require that a composite return be filed for nonresidents other than nonresident members of a pass-through entity.

7. All powers of the director and requirements of the director apply to returns filed under [this section](#) including but not limited to the provisions of [this subchapter](#) and [subchapter VI](#). The provisions of [section 422.16](#), [subsection 4](#), paragraph "c", and [subsections 7, 11, and 14](#), applying to withholding agents, shall apply in the same manner to pass-through entities under [this section](#).

8. a. For the efficient administration of [this chapter](#), the director may require or provide for the composite return on the same form as or combined with a pass-through entity's annual return required under [section 422.14](#), [422.15](#), or [422.36](#), but in such case the composite return shall be considered a separate return for purposes of [this chapter](#) and [section 421.27](#).

b. (1) If a pass-through entity is required to file its annual return under [section 422.14](#), [422.15](#), or [422.36](#) in an electronic format, the pass-through entity shall file its composite return for the same taxable year in an electronic format specified by the department.

(2) This paragraph applies to any form or schedule supporting a return required to be electronically filed or any amended return if the amended return meets any of the circumstances requiring electronic filing in this paragraph.

c. A return subject to the electronic filing requirement in paragraph "b" that is filed in a manner other than an electronic format specified by the department shall not be considered a valid return.

d. The department shall adopt rules to implement [this subsection](#).

2021 Acts, ch 151, §14, 15; 2021 Acts, ch 174, §17; 2022 Acts, ch 1061, §5, 9; 2023 Acts, ch 115, §18, 52 – 54

Referred to in [§29C.24](#), [422.16](#), [422.16C](#), [422.25A](#), [422.38](#)

Section applies to tax years beginning on or after January 1, 2022; 2021 Acts, ch 151, §15

For future amendment to subsection 2, paragraph a, effective January 1, 2026, see 2022 Acts, ch 1002, §21, 23, 24

2022 amendment to subsection 8 applies to tax years ending on or after December 31, 2022, or for tax years ending on or after December 31 of the calendar year in which the department of revenue implements a system for receiving the electronic returns, whichever is later; 2022 Acts, ch 1061, §9

Subsection 5, paragraph c applies retroactively to January 1, 2023, for tax years beginning on or after that date; 2023 Acts, ch 115, §54
Certain requirements of this section shall not apply to any estate for a tax year that began on or after January 1, 2022, and ended before
December 31, 2022, if the estate received a certificate of acquittance from the department without having filed a composite return; 2023
Acts, ch 115, §61

Subsection 5, NEW paragraph c and former paragraph c redesignated as d
Subsection 7 amended