CHAPTER 604
ESTIMATED TAX FOR FINANCIAL INSTITUTIONS

[Prior to 12/17/86, Revenue Department[730]]
[Prior to 11/2/22, see Revenue Department[701] Ch 61]

701—604.1(422) Who must pay estimated tax.

604.1(1) *General rule.* Every corporate taxpayer subject to the franchise tax on financial institutions shall pay estimated tax if the amount of tax payable, less credits, can reasonably be expected to be more than $1000 for the calendar or fiscal year. The amount of estimated tax paid shall be used as a credit on the Iowa franchise tax return.

604.1(2) *Definition.* For purposes of this division, "estimated tax" means the amount which the taxpayer estimates to be the tax due and payable under division V of Iowa Code chapter 422.

This rule is intended to implement Iowa Code section 422.85 as amended by 1989 Iowa Acts, Senate File 154.

[Editorial change: IAC Supplement 11/2/22]

701—604.2(422) Time for filing and payment of tax.

604.2(1) *Time for filing.*

a. General rule. The date for filing the first estimated tax payment is on or before the last day of the fourth month of the tax year. The estimated tax form is to be filed with the Franchise Estimate Processing, P.O. Box 10413, Des Moines, Iowa 50306.

b. Amended estimates. Generally, whenever a taxpayer who is required to make estimated tax payments has reason to believe that its Iowa franchise tax may increase or decrease, an amended estimate shall be filed at such time to reflect the increase or decrease in estimated Iowa franchise tax. The amended estimate shall be made on or before the next installment date. The unpaid balance after amending the estimate should be paid in equal installments on the remaining payment dates.

604.2(2) *Payment of estimated tax.*

a. General rule. Estimates may be paid in full at the time of the first filing or in four equal installments. The taxpayer may also elect to pay any installment prior to the date prescribed.

b. Calendar year. The first installment for a corporation filing on a calendar year basis is due by April 30. The other installments, if applicable, shall be paid on or before June 30, September 30, and December 31 of the current year.

c. Fiscal year. The installment dates for a financial institution filing on a fiscal year basis are:

Installment No. 1. The last day of the fourth month of the fiscal year.

Installment No. 2. The last day of the sixth month of the fiscal year.

Installment No. 3. The last day of the ninth month of the fiscal year.

Installment No. 4. The last day of the twelfth month of the fiscal year.

This rule is intended to implement Iowa Code sections 422.85 as amended by 1989 Iowa Acts, Senate File 154, and 422.86.

[Editorial change: IAC Supplement 11/2/22]

701—604.3(422) Special estimate periods.

604.3(1) *Short taxable year.* A financial institution having a taxable year of less than 12 months shall pay estimated tax if anticipating an Iowa tax liability of more than $1,000 for that short taxable year.

a. Short taxable year where a new financial institution first commences doing business. In filing the first estimated tax payment, the taxpayer shall state the tax period that the estimated tax payment covers.

(1) If the tax year is three months or less, no estimated tax payment need be made.

(2) If the tax year is greater than three months, but not more than four months, and estimated tax payment is required to be made on the last day of the fourth month, the estimated tax shall be paid based upon the taxable income for the first three months.

(3) If the tax year is greater than four months, but not more than six months, and the first estimated tax payment is required to be made on the last day of the fourth month, the estimated tax shall be paid

in two equal installments. The first installment shall be due the last day of the fourth month based on the first three months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by three. The second installment shall be due the last day of the tax year.

If the first estimated tax payment is required to be made after the fourth month, the estimated tax payment shall be made on the last day of the tax year and the estimated tax shall be paid in one installment based upon the taxable income for the first four months if the tax year ends during the fifth month or for the first five months if the tax year ends during the sixth month.

(4) If the tax year is greater than four months, but not more than nine months, and the first estimated tax payment is required to be made on the last day of the fourth month, the estimated tax shall be paid in three equal installments. The first installment shall be due the last day of the fourth month based on the first three months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by three. The second installment shall be due the last day of the sixth month of the tax year. The third installment shall be due the last day of the tax year.

If the first estimated tax payment is required to be made on the last day of the sixth month of the tax year, the estimated tax shall be paid in two equal installments. The first installment shall be due on the last day of the sixth month based upon the first five months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by five. The second installment shall be due on the last day of the tax year.

If the first estimated tax payment is required to be made after the last day of the sixth month of the tax year, the estimated tax payment shall be made on the last day of the tax year and the estimated tax shall be paid in one installment based on the taxable income for the first seven months if the tax year ends during the eighth month or for the first eight months if the tax year ends during the ninth month.

(5) If the tax year is greater than four months, but not more than eleven months, and the first estimated tax payment is required to be made on the last day of the fourth month, the estimated tax shall be paid in four equal installments. The first installment shall be due the last day of the fourth month based upon the first three months' income annualized by multiplying the taxable income by the number of months in the tax year and dividing by three. The second installment shall be due on the last day of the sixth month of the tax year. The third installment shall be due on the last day of the ninth month of the tax year. The fourth installment shall be due the last day of the tax year.

If the first estimated tax payment is required to be made on the last day of the sixth month of the tax year, the estimated tax shall be paid in three equal installments. The first installment shall be due on the last day of the sixth month based upon the first five months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by five. The second installment shall be due the last day of the ninth month of the tax year. The third installment shall be due on the last day of the tax year.

If the first estimated tax payment is required to be made on the last day of the ninth month of the tax year, the estimated tax shall be paid in two equal installments. The first installment shall be due on the last day of the ninth month, based upon the first eight months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by eight. The second installment shall be due the last day of the tax year.

If the first estimated tax payment is required to be made after the last day of the ninth month of the tax year, the estimated tax payment shall be made on the last day of the tax year and the estimated tax shall be paid in one installment based upon the taxable income for the first nine months if the tax year ends during the tenth month or for the first ten months if the tax year ends during the eleventh month.

(6) If during the tax year, the taxpayer determines that its tax year will be different than the tax year specified in its original payment of estimated tax, the remaining estimated tax payments, if any, shall be based upon the above schedule.

b. Short taxable year where the taxpayer is liquidated during the tax year or where under any provision of the Internal Revenue Code the taxpayer is required to file a return for a period of less than 12 months.

(1) If the tax year is three months or less, no estimated tax payment need be made.

(2) If the tax year is greater than three months, an estimated tax payment shall be made the same as if the taxpayer's tax year is a full 12 months except that the final installment shall be due the last day of the tax year.

(3) Special exception to penalty. If the taxpayer uses the exception under Iowa Code subsection 422.89(1) to avoid the penalty for underpayment of estimated tax, no penalty will accrue if the following conditions are met: (a) The total amount of all payments of estimated tax made on or before the last date prescribed for the payment of estimated tax equals the prior year's tax multiplied by the number of months in the short tax year and divided by 12, and (b) a return for the preceding tax year of a full 12 months showing a tax liability was filed by the taxpayer.

604.3(2) *Doing business for less than a full year.*

a. *General rule.* A financial institution which commences or ceases to do business during any part of the year shall determine its Iowa estimated tax on that portion of income earned while doing business during the year.

b. *Example.* A bank which first begins doing business in this state on April 15 and which expects a tax liability of $1,500 must make its first payment of estimated tax of $500 by June 30 and pay the remaining balance of $1,000 in two equal installments of $500 each by September 30 and December 31 of the tax year.

This rule is intended to implement Iowa Code section 422.92.

[Editorial change: IAC Supplement 11/2/22]

701—604.4(422) Reporting forms. Financial institutions which have paid estimated tax in the prior year will receive by mail a preaddressed reporting form. Blank reporting forms are available from the department for those making an estimate for the first time, or when the preaddressed form is misplaced or lost.

This rule is intended to implement Iowa Code section 422.21.

[Editorial change: IAC Supplement 11/2/22]

701—604.5(422) Penalties. Failure to file and underpayment of estimated tax.

604.5(1) *Underpayment penalty.*

a. A penalty is imposed for underpayment of the estimated tax by the taxpayer. This underpayment penalty is imposed whether or not there was reasonable cause for the underpayment. The Iowa penalty for underpayment of estimated tax is computed on Form IA 2220.

b. The amount of the underpayment penalty is determined at the statutory rate upon the amount of underpayment of the estimated tax for the period from the date the amount is required to be paid until the last day of the fourth month following the close of the income year, or the date the underpayment is paid, whichever is earlier.

EXAMPLE. A calendar year financial institution is required to make four equal estimated payments of $2,500 in the current year to meet the exception to the underpayment of estimated tax penalty. The financial institution does not make a first quarter estimated payment which was due on April 30, but makes an estimated payment of $5,000 for the second quarter on June 30. The financial institution is subject to the underpayment of estimated tax penalty for the period from April 30 to June 30, when the underpayment was paid.

604.5(2) *Exception to imposition of the underpayment penalty.*

a. *In general.* The underpayment penalty will not be imposed for any underpayment if, on or before the date prescribed for payment, the total amount of all payments made of the estimated tax equals or exceeds the amount which would have been required to be paid on or before such date if the estimated tax were the least of the following amounts:

(1) The tax shown on the return for the preceding taxable year, provided that the preceding taxable year was a taxable year of 12 months and a return showing a tax liability was filed for such year;

(2) An amount equal to a tax determined on the basis of the tax rates for the taxable year but otherwise on the basis of the facts shown on the return for the preceding taxable year if the taxable year was a taxable year of 12 months or, if the preceding taxable year was a taxable year of less than 12

months, then by placing the income on an annual basis and the law applicable to the preceding year, in the case of a taxpayer required to file a return for the preceding taxable year; or

(3) For tax years beginning prior to January 1, 2012, an amount equal to 90 percent of the tax determined by placing on an annual basis the net income for the first 3, 5, 6, 8, 9, or 11 months of the taxable year, whichever is applicable. For tax years beginning on or after January 1, 2012, an amount equal to 100 percent of the tax determined by placing on an annual basis the net income for the first 3, 5, 6, 8, 9, or 11 months of the taxable year, whichever is applicable. The net income so determined shall be placed on an annual basis by multiplying it by 12, and dividing the resulting amount by the number of months in the taxable year for which the net income was so determined.

b. Statement of exception. If there has been an underpayment of the amount of the estimated tax, and the taxpayer believes that one or more of the exceptions to the penalty preclude the assertion of the underpayment penalty, the taxpayer should attach a statement showing the applicability of any exception upon which the taxpayer relies.

This rule is intended to implement Iowa Code section 422.88 and 2011 Iowa Code Supplement section 422.89 as amended by 2012 Iowa Acts, Senate File 2328.
[**ARC 0337C**, IAB 9/19/12, effective 10/24/12; Editorial change: IAC Supplement 11/2/22]

701—604.6(422) Overpayment of estimated tax.

604.6(1) *Refund of overpayment of estimated tax.* Any overpayment of estimated tax, at the taxpayer's election, of $5 or more will be refunded with interest without a claim for refund being filed. If the overpayment is less than $5, it will be refunded only if the taxpayer files a claim for refund within 12 months after the due date of the return.

604.6(2) *Interest on refunds of overpayments of estimated tax.* Interest begins to accrue on the first day of the second calendar month following the date of payment or the date the return was due to be filed, or was filed, whichever is the latest. The rate of interest shall be that set forth in rule 701—10.2(421).

604.6(3) *Credit to next year's tax.* In lieu of claiming a refund, the taxpayer may elect to have the overpayment credited to the next year's tax liability. The election may not be changed after the due date for filing the return considering any extension of time to file. If the taxpayer elects to have the overpayment credited to the next year's tax liability, the overpayment will be credited to the first installment if the overpayment arose on or before the due date of the return. If the overpayment arises after the due date of the return, the overpayment will be credited to the first installment due after the date of payment. The taxpayer may by a written election included with the filing of the return elect to have the overpayment credited to a different installment. Revenue Ruling 84-58.

This subrule is effective for tax years beginning on or after January 1, 1984.

604.6(4) *Estimated tax carryforwards and how the carryforward amounts are affected under different circumstances.*

a. Estimated tax carryforward and how the amount of carryover credit is affected by error on return. If a state return is timely filed with an overpayment shown on the return and the overpayment is to be credited to the taxpayer's estimated payments for the following year, the amount credited to estimated payments will be affected by an error on the return. Thus, if the error on the return is corrected and results in a smaller overpayment than was shown when the return was filed, the credit to estimated tax from the return will be reduced accordingly.

EXAMPLE: Financial Institution X filed its 1994 return on April 20, 1995, showing an overpayment of $400 and a credit to 1995 estimated tax of $400. During processing of the return, it was determined that interest from municipal bonds was subtracted from net income instead of being added to net income. Correction of this error resulted in an overpayment of $200 instead of $400. Thus, the amount credited to the taxpayer's estimated payments for 1995 was $200 instead of the $400 shown on the return form. The department notified Financial Institution X of the error and advised that only $200 was being credited to the taxpayer's estimated tax for 1995 instead of the $400 shown on the return.

b. Estimated tax credit carryover, the carryforward amount affected by amended return. A taxpayer timely files an original return with an overpayment and with the overpayment credited to the following year's estimated tax payments. If the taxpayer files an amended return correcting an error on the original return and with a different amount credited to estimated tax than on the original return, the credit amount from the amended return will be credited to estimated tax, if the amended return is filed before the last day of the following tax year. Thus, if an amended return for tax year ending September 30, 1995, is filed by September 30, 1996, the amount shown as a credit to estimated tax from that amended return will be the amount credited to the taxpayer's September 30, 1996, estimated tax, instead of the amount credited from the original September 30, 1995, return.

EXAMPLE: Financial Institution Y filed its original September 30, 1995, return on January 15, 1996, with an overpayment of $500 and all of the overpayment credited to its estimated tax for the tax year ending September 30, 1996. Later, in 1996, Y determined that it had failed to claim a deduction on the return for depreciation on some business equipment it acquired in tax year ending September 30, 1995. Therefore, Y filed an amended Iowa return for tax year ending on September 30, 1995, on July 15, 1996, showing an overpayment of $700 and a credit to estimated tax of the same amount. Y's amended return was filed on or before September 30, 1996, so the $700 credit to Y's estimated tax for tax year ending September 30, 1996, from the amended return was allowed.

Note that if the amended return had not been filed until sometime in October 1996, the credit from Y's original return would have been applied to Y's estimated payments for tax year ending September 30, 1996. Since the amended return would have been filed too late for purposes of crediting the overpayment to the taxpayer's estimated tax for the next year, the department would issue Y a refund of $200 which is the portion of the overpayment from the amended return that had not been credited to estimated tax from the original return for tax year ending September 30, 1995.

c. Estimated tax carryforward and how the amount of carryover credit is affected by state tax liability or other state liability of the taxpayer. A taxpayer who files an Iowa return with an overpayment shown on the return and elects to have the overpayment credited to the taxpayer's estimated tax for the next tax year will not have the overpayment credited to estimated tax, if the taxpayer has tax liabilities or other liabilities with the state that are subject to setoff. Other liabilities with the state that are subject to setoff are those liabilities described in Iowa Code section 8A.504. These liabilities are for district court debts, and any other debts of the taxpayer with a board, commission, department, or other administrative office or unit of the state of Iowa.

EXAMPLE: Financial Institution Z filed its 1994 Iowa return in April 1995 showing an overpayment of $400 and a credit to 1995 estimated tax of $400. During processing of Financial Institution Z's 1994 return it was determined that Financial Institution Z had a liability of $150 from its 1993 Iowa return. Thus, $150 of the 1994 overpayment was offset against the tax liability from the 1993 return. The remaining portion of the 1994 overpayment of $250 was credited to Financial Institution Z's estimated tax for 1995.

604.6(5) *Accrual of interest on an assessment of additional tax.* If the taxpayer has not elected to have an overpayment credited to an installment other than the first installment, interest shall accrue on an assessment of additional tax as follows. If the overpayment was credited to the first installment, interest on an assessment of additional tax shall accrue from the due date of the return. If the overpayment was credited to an installment due after the overpayment arose, interest shall accrue from the date the return was filed. Interest on that portion of an assessment greater than the overpayment shall accrue from the due date of the return.

If the taxpayer has elected to have an overpayment of estimated tax credited to an installment other than the first, interest shall accrue on any assessment of additional tax up to the amount of the overpayment from the date the return was filed with the department. Interest on any assessment of additional tax greater than the amount of the overpayment shall accrue from the due date of the return. *Avon Products, Inc. v. United States,* 588 F.2d 342 (2nd Cir. 1978), Revenue Ruling 84-58.

This subrule is effective for tax years beginning on or after January 1, 1984.

This rule is intended to implement Iowa Code section 422.91.

[Editorial change: IAC Supplement 11/2/22]

[Filed 10/14/77, Notice 9/7/77—published 11/2/77, effective 12/7/77]

[Filed 9/18/78, Notice 7/26/78—published 10/18/78, effective 11/22/78]

[Filed emergency 3/2/79—published 3/21/79, effective 3/2/79]

[Filed emergency 7/17/80—published 8/6/80, effective 7/17/80]
[Filed 11/20/81, Notice 10/14/81—published 12/9/81, effective 1/13/82]
[Filed 8/10/84, Notice 7/4/84—published 8/29/84, effective 10/3/84]
[Filed 3/8/85, Notice 1/30/85—published 3/27/85, effective 5/1/85]
[Filed emergency 11/14/86—published 12/17/86, effective 11/14/86]
[Filed 10/16/87, Notice 9/9/87—published 11/4/87, effective 12/9/87]
[Filed 9/29/89, Notice 8/23/89—published 10/18/89, effective 11/22/89]
[Filed 12/1/95, Notice 10/25/95—published 12/20/95, effective 1/24/96]
[Filed 3/22/96, Notice 2/14/96—published 4/10/96, effective 5/15/96]
[Filed 7/28/06, Notice 6/21/06—published 8/16/06, effective 9/20/06]
[Filed ARC 0337C (Notice ARC 0232C, IAB 7/25/12), IAB 9/19/12, effective 10/24/12]
[Editorial change: IAC Supplement 11/2/22]