

CHAPTER 404  
COMPOSITE RETURNS FOR TAX YEARS BEGINNING PRIOR TO JANUARY 1, 2022  
[Prior to 11/2/22, see Revenue Department[701] Ch 48]

**701—404.1(422) Composite returns.** For tax years of nonresident partners, members, shareholders, or beneficiaries which begin on or after January 1, 1987, a partnership, limited liability company, S corporation, or trust may be allowed or be required to file a composite return and pay the tax due on behalf of the nonresident partners, members, shareholders, or beneficiaries. For tax years of nonresident partners, members, shareholders, or beneficiaries which begin on or after January 1, 1999, a partnership, limited liability company, S corporation, or trust may elect or may be required to file a composite return and pay the tax due on behalf of the nonresident partners, members, shareholders, or beneficiaries. For tax years beginning on or after January 1, 1995, professional athletic teams may be allowed or be required to file a composite return and pay the tax due on behalf of nonresident team members. For tax years beginning on or after January 1, 2008, nonresident trusts or estates which are partners, members, shareholders or beneficiaries in partnerships, limited liability companies, S corporations or estates or trusts may elect or may be required to file a composite return and pay the tax due on behalf of the nonresident trusts or estates.

This rule is intended to implement Iowa Code section 422.13 as amended by 2007 Iowa Acts, House File 923, section 15.

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

**701—404.2(422) Definitions.** For the purposes of this chapter:

“*Employee*” means a nonresident member of a professional athletic team as defined in subrule 701—40.46(1).

“*Partner*” includes a member of a limited liability company which is treated as a partnership for tax purposes.

“*Taxpayer*” means a partnership, limited liability company, S corporation, professional athletic team, or trust which files a return and pays the tax on behalf of the nonresident partners, members, shareholders, employees, beneficiaries, estates or trusts.

“*Tax year*” means the tax year of the partners, shareholders, employees, beneficiaries, estates or trusts included in the composite return.

This rule is intended to implement Iowa Code section 422.13.

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

**701—404.3(422) Filing requirements.** A composite return may be allowed or required to be filed based upon the following:

1. The composite return must include all nonresident partners, shareholders, employees, or beneficiaries unless the taxpayer can demonstrate which nonresident partners, shareholders, employees, or beneficiaries are filing separate income tax returns because the partner, shareholder, employee or beneficiary has Iowa source income other than that which may be reported on a separate composite return, or has elected to file an Iowa individual income tax return. Nonresident partners, shareholders, employees, or beneficiaries shall not be included in a composite return if the nonresident has less than the minimum statutory filing amount. For example, for 2006 the minimum income from Iowa sources before a nonresident is required to file an Iowa individual income tax return is \$1,000 of income attributed to Iowa sources as determined by applying the allocation and apportionment provisions of 701—Chapter 54 to the nonresident’s prorated share of the entity’s income. In addition, nonresident partners, shareholders, employees, or beneficiaries shall not be included in a composite return if the nonresident does not have more income from Iowa sources than the amount of one standard deduction for a single taxpayer plus an amount of income necessary to create a tax liability at the effective tax rate on the composite return sufficient to offset one personal exemption. For example, for 2006 a standard deduction for a single individual is \$1,650 and at the maximum tax rate of 8.98 percent, \$445 of taxable income is required to offset the \$40 personal exemption. This equates to \$2,095 (\$445 plus \$1,650) of income attributable to Iowa sources that would be required to be included in a composite return. The

taxpayer must include a list of all nonresident partners, shareholders, employees, or beneficiaries who are filing separate income tax returns. The list must also include the address and social security number or federal identification number of the nonresident partners, shareholders, employees, or beneficiaries. Filing a composite return is an election which may not be withdrawn after the due date of the return (considering any extension of time to file), but the nonresidents may, as an individual or as a group, withdraw their election at any time prior to the due date (considering any extension of time to file).

2. Income of partners, shareholders, employees, or beneficiaries whose state of residence is not known by the taxpayer must be included in the composite return.

3. Income of partners in publicly traded limited partnerships held in street names by brokers must be included in the composite return unless the taxpayer can demonstrate that the partner is an Iowa resident.

4. A taxpayer who elects to file a composite return shall continue to file composite returns unless the taxpayer notifies the department in writing that the taxpayer wishes to discontinue filing composite returns. The notice shall be filed with the Iowa Department of Revenue, Examination Section, Compliance Division, P.O. Box 10456, Des Moines, Iowa 50306, before the due date of the return for the tax year for which the change in filing is to be made.

A taxpayer who was required to file a composite return for the immediately preceding taxable year is required to file a composite return unless permission is given to discontinue filing a composite return.

5. Each nonresident partner, shareholder, employee, or beneficiary whose income is included in the composite return must have the same tax year, which must be the tax year of the majority of the nonresident partners, shareholders, employees, or beneficiaries. Those nonresident partners, shareholders, employees, or beneficiaries who are not included in the composite return must file separate individual income tax returns.

This rule is intended to implement Iowa Code section 422.13.

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

**701—404.4** Reserved.

**701—404.5(422) Composite return required by director.** The director may in accordance with rule 701—48.3(422) require the filing of a composite return under the following conditions.

**404.5(1)** The director may require the filing of a composite return if the nonresident partners, shareholders, or beneficiaries do not file individual income tax returns and pay the tax due.

**404.5(2)** Where some of the nonresident partners, shareholders, or beneficiaries file individual income tax returns and pay the tax due, but other nonresident partners, shareholders, or beneficiaries do not file individual returns, the director may require a composite return which includes the Iowa taxable income of those nonresident partners, shareholders, or beneficiaries who did not file individual returns.

**404.5(3)** For tax years beginning on or after January 1, 2010, if it is determined that it is necessary for the efficient administration of Iowa individual income tax, the director may require the filing of a composite return for nonresidents other than nonresident partners, members, beneficiaries or shareholders in partnerships, limited liability companies, trusts or S corporations.

For example, the director may require a composite return in situations where nonresident real estate brokers or nonresident insurance agents who are independent contractors earn commission income from the sale of real estate in Iowa or from insurance policies sold to Iowa residents.

This rule is intended to implement Iowa Code section 422.13 as amended by 2009 Iowa Acts, Senate File 478, section 132.

[ARC 8589B, IAB 3/10/10, effective 4/14/10; Editorial change: IAC Supplement 11/2/22]

**701—404.6(422) Determination of composite Iowa income.** Because a composite return is filed on behalf of the nonresident partners, shareholders, employees, or beneficiaries, it must be based upon the tax year of the majority of its partners, shareholders, employees, or beneficiaries. The composite return must be filed on Form IA 1040C, “Composite Iowa Individual Income Tax Return.” Attach schedules as necessary to explain the return. For the purposes of this rule, federal income means federal ordinary income (loss) from trade or business activities plus those items of income which flow through separately

less expense items which flow through separately to the partners, shareholders, or beneficiaries joining in the filing of a composite return.

1. Adjustments to federal income. For partnerships and trusts, make those adjustments to federal income set forth in Iowa Code section 422.7. For S corporations, make those adjustments to federal income set forth in Iowa Code section 422.35.

2. Apply the allocation and apportionment provisions of 701—Chapter 54 or rule 701—40.46(422) for allocation of compensation paid to nonresident employees of professional athletic teams.

3. Deduct one standard deduction equal to the amount allowed a single taxpayer, not to exceed the amount of income attributable to Iowa, for each nonresident partner, shareholder, employee, or beneficiary included in the composite return.

4. For tax years beginning on or after January 1, 1989, deduct an amount in lieu of a federal tax deduction based upon the following schedule.

0 — \$ 49,999	No deduction
\$ 50,000 — \$ 99,999	5% of net income attributable to Iowa
\$100,000 — \$199,999	10% of net income attributable to Iowa
\$200,000 and over	15% of net income attributable to Iowa

5. A net operating loss carryback or carryforward is allowed. See 701—subrule 40.18(3). In lieu of a net operating loss carryback, the taxpayer may elect to carry the loss forward.

This rule is intended to implement Iowa Code section 422.13.

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

#### **701—404.7(422) Determination of composite Iowa tax.**

**404.7(1)** The tax will be computed in accordance with Iowa Code section 422.5, including the alternative minimum tax as though a resident.

**404.7(2)** Deduct from the computed tax one personal exemption credit of \$20 (\$40 for tax years beginning on or after January 1, 1998) for each nonresident partner, shareholder, employee, or beneficiary included in the composite return.

EXAMPLE: For tax year 1991, X corporation is an S corporation, all of whose shareholders but one are nonresidents who have elected to join in the filing of a composite return. The three electing shareholders' share of income or loss is 87 percent of the corporation's total income. The S corporation's net income is \$800,000, and income items totaling \$6,000 and expenses of \$500,000 flow directly to the shareholders. The corporation has 25 percent of its sales with an Iowa destination. The corporation has tax preferences and adjustments of \$475,000. The composite tax liability would be computed as follows:

Net income attributable to electing shareholders \$800,000 × 87%	\$696,000
Add: electing shareholders' share of income items which flow separately to shareholders \$6,000 × 87%	5,220
Less: electing shareholders' share of expenses which flow separately to shareholders \$500,000 × 87%	<u>&lt;435,000&gt;</u>
Income attributable to electing shareholders	\$266,220
Times the Iowa business activity ratio	<u>25%</u>
Net income attributable to Iowa	\$ 66,555

Less: one standard deduction per shareholder 3 × \$1,280	< 3,840>
Federal tax deduction \$66,555 × 5%	<u>&lt; 3,328&gt;</u>
Iowa taxable income	\$ 59,387
Computed tax	\$ 4,515
Less: one personal exemption credit per shareholder 3 × \$20	<u>&lt; 60&gt;</u>
Iowa tax	<u>\$ 4,455</u>

The alternative minimum tax would be computed as follows:

Iowa taxable income	\$ 59,387
Add: tax preferences and adjustments attributable to electing shareholders times Iowa activity ratio \$475,000 × 87% × 25%	<u>103,313</u>
	\$162,700
Less: exemption	<u>35,000</u>
Minimum taxable income	\$127,700
times minimum tax rate 7.5%	<u>× .075</u>
Computed minimum tax	\$ 9,578
Less regular tax	<u>&lt; 4,455&gt;</u>
Minimum tax liability	<u>\$ 5,123</u>

This rule is intended to implement Iowa Code section 422.13.  
[ARC 1303C, IAB 2/5/14, effective 3/12/14; Editorial change: IAC Supplement 11/2/22]

**701—404.8(422) Estimated tax.** Taxpayers filing composite returns are not required to make payments of estimated tax. However, if taxpayers desire to make estimated payments, the estimated payments should be made on Form IA 1040ES using the partnership's, S corporation's, or trust's identification number assigned by the department in lieu of the social security number.

This rule is intended to implement Iowa Code section 422.13.  
[Editorial change: IAC Supplement 11/2/22]

**701—404.9(422) Time and place for filing.**

**404.9(1)** A composite return of income must be filed on or before the due date. The due date is the last day of the fourth month following the close of the tax year of the partners, shareholders, employees, beneficiaries, estates or trusts included in the composite return, or the last day of the period covered by an extension of time granted by the department. When the due date falls on a Saturday, Sunday, or

holiday, the composite return is due the following day that is not a Saturday, Sunday, or holiday. Iowa Code section 421.9A contains additional information on due dates that fall on a Saturday, Sunday, or holiday. If a return is placed in the mail, properly addressed, postage paid, and postmarked on or before the due date for filing, no penalty will attach should the return not be received until after that date. Mailed returns should be addressed to Composite Return Processing, Department of Revenue, P.O. Box 10469, Des Moines, Iowa 50306.

**404.9(2)** Extension of time for filing composite returns. If at least 90 percent of the tax required to be shown due has been paid by the due date and no return was filed by the due date, the director will consider that the taxpayer has requested an extension of time to file the return and will automatically grant an extension of up to six months to file the return. The taxpayer does not have to file an application for extension form with the department to get the automatic extension to file the return within the six-month period after the due date and not be subject to penalty. However, if the taxpayer wants to make a tax payment to ensure that at least 90 percent of the tax has been paid on or before the due date, the payment should be made with the Iowa Tax Voucher form. This form can be requested from the Taxpayer Services Section, P.O. Box 10457, Des Moines, Iowa 50306, or by telephone at (515)281-3114.

To determine whether or not at least 90 percent of the tax was “paid” on or before the due date, the aggregate amount of tax credits applicable on the return, plus the tax payments made on or before the due date, are divided by the tax required to be shown due on the return. The tax required to be shown on the return is the sum of the income tax and minimum tax. The tax credits applicable are the credits set out in Iowa Code chapter 422, division II, and section 422.111.

If the aggregate of the tax credits and the tax payments are equal to or greater than 90 percent of the tax required to be shown due, the taxpayer will have met the “90 percent” test and no penalty will be assessed. However, the taxpayer will still be subject to statutory interest on any tax due when the return is filed.

Any tax elections, such as the election to carry forward a net operating loss occurring in the tax year, will be considered to be valid in instances when the return is filed within the six-month extended period after the due date. The fact that the taxpayer has paid less than 90 percent of the tax required to be shown due will not invalidate any tax elections made on the return, if the return is filed within the six-month extended period.

This rule is intended to implement Iowa Code section 422.13.

[ARC 7761B, IAB 5/6/09, effective 6/10/09; ARC 6551C, IAB 10/5/22, effective 11/9/22; Editorial change: IAC Supplement 11/2/22]

#### **701—404.10(422) Repeal—transition rule.**

**404.10(1)** *In general.* Except as otherwise provided in subrule 404.10(2), this chapter has no application to any tax year of partners, members, shareholders, beneficiaries, or employees that begins on or after January 1, 2022. The department’s administrative rules on composite returns for any tax year of a partnership, limited liability company, S corporation, estate, or trust that begins on or after January 1, 2022, are located in 701—Chapter 405.

**404.10(2)** *Special rule for fiscal year filers in tax year 2021.* For the tax year of a partnership, limited liability company, S corporation, estate, or trust that begins in calendar year 2021 and ends in calendar year 2022, the entity may elect or be required to file a Form IA 1040C and pay tax under this chapter for income from that tax year that is reportable by nonresident partners, members, shareholders, or beneficiaries for their tax year beginning during calendar year 2022.

EXAMPLE: Partnership P is a fiscal year filer with a tax year that runs from July 1 to June 30. The majority of Partnership P’s partners are individuals who file on a calendar-year basis, thus P is required to file the Form IA 1040C on a calendar-year basis. Partnership P may elect or be required to file a Form IA 1040C to report the Iowa-source income earned by the eligible nonresident partners during Partnership P’s 2021 tax year that began on July 1, 2021, and ended on June 30, 2022.

This rule is intended to implement 2021 Iowa Acts, Senate File 608, division II.

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