CHAPTER 11
TAX ADMINISTRATION

[Prior to 12/17/86, Revenue Department[730]]

Chapter rescission date pursuant to Iowa Code section 17A.7: 3/26/30

701—11.1(421) Definitions. For purposes of this chapter:

"Department" means the Iowa department of revenue.

"Director" means the director of revenue or the director's designee.

"Taxpayer" includes any person subject to the provisions of a tax or charge administered by the department whether acting on the person's own behalf or as an agent or fiduciary.

This rule is intended to implement Iowa Code chapter 421.

[**ARC 8947C**, IAB 2/19/25, effective 3/26/25]

701—11.2(421) Scope.

11.2(1) Except as otherwise provided in this chapter, this chapter provides certain rules related to the department's administration of the following taxes:

a. Sales and use taxes and local option taxes under Iowa Code chapters 423 and 423B.

b. Fee for new registration under Iowa Code section 321.105A.

c. Hotel and motel tax under Iowa Code chapter 423A.

d. Automobile rental excise tax under Iowa Code chapter 423C.

e. Equipment tax under Iowa Code chapter 423D.

f. Water service excise tax under Iowa Code chapter 423G.

g. Motor fuel, special fuel, and electric fuel taxes under Iowa Code chapter 452A.

h. Cigarette and tobacco taxes under Iowa Code chapter 453A.

11.2(2) The tax administration rules described in this chapter are not intended to be comprehensive. The administrative code chapters for each relevant tax may contain additional tax administration rules.

This rule is intended to implement Iowa Code chapter 421.

[**ARC 8947C**, IAB 2/19/25, effective 3/26/25]

701—11.3(321,421,423,452A,453A) Taxpayer records.

11.3(1) *Records required.* Every taxpayer shall keep and preserve records. The records must include the normal books of account ordinarily maintained by a person engaged in the activity in question including but not limited to all bills, receipts, invoices, cash register tapes, or other documents of original entry supporting the entries in the books of account as well as all schedules or working papers used in connection with the preparation of tax returns or reports. The records must be made available for examination upon request by the director.

11.3(2) *Automatic data processing records.* Automatic data processing (ADP) is defined in this rule as including electronic data processing (EDP).

a. An ADP tax accounting system must have built into its program a method of producing visible and legible records that will provide the necessary information for verification of the taxpayer's tax liability.

b. ADP records must provide an opportunity to trace any transaction back to the original source or forward to a final total. If detailed printouts are not made of transactions at the time they are processed, then the system must have the ability to reconstruct these transactions.

c. A general ledger with source references will be produced to coincide with financial reports of tax reporting periods. In cases where subsidiary ledgers are used to support the general ledger accounts, the subsidiary ledgers should also be produced periodically.

d. Supporting documents and audit trail. The audit trail should be designed so that the details underlying the summary accounting data may be identified and made available to the director upon request. The system should be designed so that the supporting documents are readily available. An audit trail is defined as the condition of having sufficient documentary evidence to trace an item from a source to a financial statement or tax return or report; or the reverse; that is, to have an auditable system.

e. Program documentation. A description of the ADP portion of the accounting program should be available. The statements and illustrations as to the scope of operations should be sufficiently detailed to indicate:

(1) The application being performed.

(2) The procedure employed in each application, which, for example, might be supported by flow charts, block diagrams or other satisfactory description of the input or output procedures.

(3) The controls used to ensure accurate and reliable processing. Program and system changes, together with their effective dates, should be noted in order to preserve an accurate chronological record.

f. Storage of ADP output will be in appropriate facilities to ensure preservation and readability of output.

11.3(3) *Electronic data interchange or EDI technology.*

a. Definitions. The following definitions are applicable to this subrule:

"Database management system" means a software system that controls, relates, retrieves, and provides accessibility to data stored in a database.

"Electronic data interchange" or *"EDI technology"* means the computer-to-computer exchange of business transactions in a standardized, structured electronic format.

"Hard copy" means any documents, records, reports, or other data printed on paper.

"Machine-sensible record" means a collection of related information in an electronic format. Machine-sensible records do not include hard-copy records that are created or recorded on paper or stored in or by an imaging system such as microfilm, microfiche, or storage-only imaging systems.

"Storage-only imaging system" means a system of computer hardware and software that provides for the storage, retention, and retrieval of documents originally created on paper. It does not include any system, or part of a system, that manipulates or processes any information or data contained on the document in any manner other than to reproduce the document in hard copy or as an optical image.

b. This subrule prescribes requirements imposed on taxpayers for the maintenance and retention of books, records, and other sources of information under Iowa law. It is also the purpose of this subrule to address these requirements where all or part of the taxpayer's records are received, created, maintained, or generated through various computer, electronic, and imaging processes and systems. A taxpayer must maintain all records that are necessary for determination of the correct tax liability as set forth in this subrule. All required records must be made available on request by the department. If a taxpayer retains records required to be retained under this subrule in both machine-sensible and hard-copy formats, the taxpayer must make the records available to the department in machine-sensible format upon request of the department. Nothing in this subrule will be construed to prohibit a taxpayer from demonstrating tax compliance with traditional hard-copy documents or reproductions thereof, in whole or in part, whether or not the taxpayer also has retained or has the capability to retain records on electronic or other storage media in accordance with this subrule. However, this will not relieve a taxpayer of the obligation to comply with the requirement to make records available to the department.

c. Recordkeeping requirements—machine-sensible records. A taxpayer that maintains and retains books, records, and other sources of information in the form of machine-sensible records must comply with the following:

(1) General requirements. A taxpayer must comply with the following general requirements regarding the retention of machine-sensible records:

1. Machine-sensible records used to establish tax compliance must contain sufficient transaction-level detail information so that the details underlying the machine-sensible records can be identified and made available to the department upon request. A taxpayer has discretion to discard duplicate records and redundant information provided its responsibilities under this rule are met.

2. At the time of an examination, the retained records must be capable of being retrieved and converted to a standard record format. The term "standard record format" does not mean that every taxpayer must keep records in an identical manner. Instead, it requires that if a taxpayer utilizes a code system to identify elements of information in each record when creating and maintaining records, the taxpayer is required to maintain a record of the meaning of each code and any code changes so the department may effectively review the taxpayer's records.

3. Taxpayers are not required to construct machine-sensible records other than those created in the ordinary course of business. A taxpayer that does not create the electronic equivalent of a traditional paper document in the ordinary course of business is not required to construct a traditional paper document for tax purposes.

(2) Electronic data interchange requirements. A taxpayer must comply with the following requirements for records received through electronic data interchange:

1. Where a taxpayer uses an electronic data interchange process and technology, the level of record detail, in combination with other records related to the transactions, must be equivalent to that contained in an acceptable paper record. For example, the retained records should contain the following minimal information: vendor name, invoice date, product description, quantity purchased, price, amount of tax, indication of tax status, and shipping details. Codes may be used to identify some or all of the data elements, provided that the taxpayer provides a method which allows the department to interpret the coded information.

2. The taxpayer may capture the information necessary to satisfy the requirements set forth in the preceding paragraph at any level within the accounting system and need not retain the original EDI transaction records provided that the audit trail, authenticity, and integrity of the retained records can be established. For example, a taxpayer using electronic data interchange technology receives electronic invoices from its suppliers. The taxpayer decides to retain the invoice data from completed and verified EDI transactions in its accounts payable system rather than to retain the EDI transactions themselves. Since neither the EDI transaction nor the accounts payable system captures information from the invoice pertaining to product description and vendor name (i.e., they contain only codes for that information), the taxpayer also retains the other records such as its vendor master file and product code description lists and makes them available to the department. In this example, the taxpayer need not retain its original EDI transaction for tax purposes.

(3) Electronic data processing systems requirements. The requirements for an electronic data processing accounting system should be similar to that of a manual accounting system, in that an adequately designed accounting system should incorporate methods and records that will satisfy the requirements of this rule. In addition, pursuant to Iowa law, the department must have access to the taxpayer's EDI processing, accounting, or other systems for the purposes of verifying or evaluating the integrity and reliability of those systems to provide accurate and complete records.

(4) Business process information. To verify the accuracy of the records being retained, the taxpayer must comply with the following:

1. Upon the request of the department, the taxpayer shall provide a description of the business process that created the retained records. The description must include the relationship between the records and the tax documents prepared by the taxpayer and the measures employed to ensure the integrity of the records.

2. The taxpayer must be capable of demonstrating the following:

- The functions being performed as they relate to the flow of data through the system;
- The internal controls used to ensure accurate and reliable processing; and
- The internal controls used to prevent unauthorized addition to, alteration of, or deletion of retained records.

3. The following specific documentation is required for machine-sensible records retained pursuant to this rule:

- Record formats or layouts;
- Field definitions (including a record of any changes in the system or codes with the meaning of all codes used to represent information);
- File descriptions (e.g., data set name); and
- Detailed charts of accounts and account descriptions.

d. Record maintenance requirements. The department recommends but does not require that taxpayers refer to the National Archives and Record Administration's (NARA) standards for guidance on the maintenance and storage of electronic records such as the labeling of records, the location and security of the storage environment, the creation of backup copies, and the use of periodic testing to confirm the

continued integrity of the records. The NARA standards may be found at 36 Code of Federal Regulations, Part 1234, November 2, 2009, Edition. The taxpayer's computer hardware and software must accommodate the extraction and conversion of retained machine-sensible records.

e. Access to machine-sensible records. If a taxpayer retains records required to be retained under this rule in both machine-sensible and hard-copy formats, the taxpayer must make the records available to the department in machine-sensible format upon the request of the department.

(1) The manner in which the department is provided access to machine-sensible records may be satisfied through a variety of means that must take into account a taxpayer's facts and circumstances through consultation with the taxpayer.

(2) Access will be provided in one or more of the following manners:

1. The taxpayer may arrange to provide the department with the hardware, software, and personnel resources to access the machine-sensible records.

2. The taxpayer may arrange for a third party to provide the hardware, software, and personnel resources necessary to access the machine-sensible records.

3. The taxpayer may convert the machine-sensible records to a standard record format specified by the department, including copies of files, on a magnetic medium that is agreed to by the department.

4. The taxpayer and the department may agree on other means of providing access to the machine-sensible records.

f. Taxpayer's responsibility and discretionary authority. In conjunction with meeting the requirements of paragraph 11.3(3)*"c,"* a taxpayer may create files solely for the use of the department. For example, if a database management system is used, it is consistent with this subrule for the taxpayer to create and retain a file that contains the transaction-level detail from the database management system and that meets the requirements of paragraph 11.3(3)*"c."* The taxpayer should document the process that created the separate file to show the relationship between that file and the original records. A taxpayer may contract with a third party to provide custodial or management services of the records. Such a contract will not relieve the taxpayer of its responsibilities under this rule.

g. Alternative storage media. For purposes of storage and retention, taxpayers may convert hard-copy documents received or produced in the normal course of business and required to be retained under this rule to microfilm, microfiche, or other storage-only imaging systems and may discard the original hard-copy documents, provided the rules governing alternative storage media are met.

h. Microfilm, microfiche, and other storage-only imaging systems. These shall meet the following requirements:

(1) Documentation establishing the procedures for converting the hard-copy documents to microfilm, microfiche, or other storage-only imaging system must be maintained and made available upon request. Such documentation shall, at a minimum, contain sufficient description to allow an original document to be followed through the conversion system as well as internal procedures established for inspection and quality assurance.

(2) Procedures must be established for the effective identification, processing, storage, and preservation of the stored documents and for making them available for the period they are required to be retained.

(3) Upon request by the department, a taxpayer must provide facilities and equipment for reading, locating, and reproducing any documents maintained on microfilm, microfiche, or other storage-only imaging system.

(4) When displayed on such equipment or reproduced on paper, the documents must exhibit a high degree of legibility and readability. For this purpose, legibility is defined as the quality of a letter or numeral that enables the observer to identify it positively and quickly to the exclusion of all other letters or numerals. Readability is defined as the quality of a group of letters or numerals being recognizable as words or complete numbers.

(5) All data stored on microfilm, microfiche, or other storage-only imaging systems must be maintained and arranged in a manner that permits the location of any particular record.

(6) There is no substantial evidence that the microfilm, microfiche, or other storage-only imaging system lacks authenticity or integrity.

i. Effect on hard-copy recordkeeping requirements. Except as otherwise provided, the provisions of this subrule do not relieve taxpayers of the responsibility to retain hard-copy records that are created or received in the ordinary course of business as required by existing law and rules. Hard-copy records may be retained on alternative storage media as indicated in this subrule.

(1) If hard-copy records are not produced or received in the ordinary course of transacting business (e.g., when the taxpayer uses electronic data interchange technology), hard-copy records need not be created.

(2) Hard-copy records generated at the time of a transaction using a credit or debit card must be retained unless all the details necessary to determine correct tax liability relating to the transaction are subsequently received and retained by the taxpayer in accordance with this rule.

(3) Computer printouts that are created for validation, control, or other temporary purposes need not be retained.

(4) Nothing in this rule will prevent the department from requesting hard-copy printouts in lieu of retained machine-sensible records at the time of examination.

11.3(4) *Preservation of records.*

a. The records required in this rule shall be preserved, at a minimum, for the length of time that the records may be relevant to the department's determination of tax liability for any tax year, and shall be open for examination by the department during this period of time.

b. If a tax liability has been assessed and an appeal is pending to the department, district court, or an appellate court, the records described in this rule which relate to the period covered by the assessment shall be preserved until the final disposition of the appeal.

c. If the requirements of this rule are not met, the records will be considered inadequate.

This rule is intended to implement Iowa Code sections 321.105A, 421.17, 423.41, 452A.10, 453A.15, 453A.18, 453A.19, and 453A.24.

[**ARC 8947C**, IAB 2/19/25, effective 3/26/25]

701—11.4(421,423,452A,453A) Audit of records.

11.4(1) *In general.* The department has the right and duty to examine or cause to be examined the books, papers, records, memoranda or documents of a taxpayer for the purpose of verifying the correctness of a return or report filed or determining the tax liability of any taxpayer. The right to examine records includes but is not limited to the right to examine copies of the taxpayer's state and federal income tax returns.

11.4(2) *Delegation of authority.* Pursuant to statutory authority, the director delegates to department staff the power to examine reports, returns, and records; make audits; determine the correct amount of tax, penalty, interest, and fines due; and take all actions authorized to collect the same, subject to review by or appeal to the director.

11.4(3) *Audit costs.*

a. In the case of fuel taxes under Iowa Code chapter 452A, the costs incurred in examining the records of a taxpayer are at the taxpayer's expense when the records are kept at an out-of-state location. Costs will include meals, lodging, and travel expenses but will not include salaries of department personnel.

b. In the case of cigarette and tobacco taxes under Iowa Code chapter 453A, when it is determined upon audit that any person dealing in cigarettes owes additional tax, the costs of the audit are assessed against such person as additional penalty.

This rule is intended to implement Iowa Code sections 421.17, 423.37, 452A.43, 452A.62, 452A.76, and 453A.30.

[**ARC 8947C**, IAB 2/19/25, effective 3/26/25]

701—11.5(421) Time and place of taxpayer interviews. This rule governs taxpayer interviews related to all taxes and charges administered by the department. If a taxpayer is selected for an interview, the time and place of the interview is to be fixed by an employee of the department and employees of the department are to endeavor to schedule a time and place that is reasonable under the circumstances.

11.5(1) *Time of taxpayer interviews.* The department will schedule the day(s) for a taxpayer interview during a normally scheduled workday(s) of the department during the department's normal business hours. The department will schedule taxpayer interviews throughout the year without regard to seasonal fluctuations in the business of particular taxpayers or their representatives. The department will, however, work with taxpayers or their representatives to try to minimize any adverse effects in scheduling the date and time of a taxpayer interview.

11.5(2) *Type of taxpayer interview.*

a. The department will determine whether a taxpayer interview will be an office interview (i.e., an interview conducted at a department office) or a field interview (i.e., an interview conducted at the taxpayer's place of business or residence, or some other location that is not a department office) based on which form of interview will be more conducive to effective and efficient tax administration.

b. The department may grant a request to hold an office interview at another location.

11.5(3) *Place of taxpayer interview.* The department will make an initial determination of the place for an interview based on the address shown on the return for the tax period to be examined. Requests by taxpayers to transfer the place of interview will be resolved on a case-by-case basis using the criteria set forth in paragraph 11.5(3)*"c."*

a. Office taxpayer interviews. An office interview of an individual or sole proprietorship generally is based on the residence of the individual taxpayer. An office interview of a taxpayer that is a business or other legal entity generally is based on the location where the taxpayer's original books, records, and source documents are maintained.

b. Field taxpayer interviews. A field interview generally will take place at the location in this state where the taxpayer's original books, records, and source documents pertinent to the interview are maintained. In the case of a business, this usually will be the taxpayer's principal place of business.

c. Requests by taxpayers to change place of interview. The department will consider, on a case-by-case basis, written requests by taxpayers or their representatives to change the place that the department has set for an interview. In considering these requests, the department will take into account the following factors:

(1) The location of the taxpayer's current residence;

(2) The location of the taxpayer's current principal place of business;

(3) The location where the taxpayer's books, records, and source documents are maintained;

(4) The location at which the department can perform the interview most efficiently;

(5) The department resources available at the location to which the taxpayer has requested a transfer; and

(6) Other factors that indicate that conducting the interview at a particular location could pose undue inconvenience to the taxpayer.

d. Granting of requests to change place of interview. A request by a taxpayer to transfer the place of interview generally will be granted under the following circumstances:

(1) In the case of a taxpayer that is a small business, if an interview is scheduled at the taxpayer's place of business and the taxpayer can demonstrate in writing that conducting the interview at the place of business would essentially require the business to close or would unduly disrupt business operations, the department will change the place of interview.

(2) If a taxpayer does not reside at the residence where an interview has been scheduled, the department will agree to transfer the examination to the taxpayer's current residence.

(3) If the taxpayer's books, records, and source documents are maintained at a location in this state other than the location where the interview has been scheduled, the department will agree to transfer the interview to the location where the taxpayer's books, records, and source documents are maintained.

e. Other factors that affect the location of an interview include:

(1) The location of the place of business of a taxpayer's representative generally will not be considered in determining the place for an interview. However, the department in its sole discretion may determine, based on the factors described in paragraph 11.5(3)*"c,"* to transfer the place of interview to the representative's office.

(2) If any applicable period of limitations of assessment and collection provided in the Iowa Code will expire within 13 months from the date of a taxpayer's request to transfer the place of interview, the department may require, as a condition to the transfer, that the taxpayer agree in writing to extend the limitations period up to one year.

(3) The department is not required to transfer an interview to an office that does not have adequate resources to conduct the interview.

(4) Notwithstanding any other provision of this rule, employees of the department may decline to conduct an interview at a particular location if it appears that the possibility of physical danger may exist at that location. In these circumstances, the department may transfer an interview to a department office and take any other steps reasonably necessary to protect its employees.

(5) Nothing in this rule shall be interpreted as precluding the department from initiating the transfer of an interview if the transfer would promote the effective and efficient conduct of the interview. Should a taxpayer request that such a transfer not be made, the department will consider the request according to the principles and criteria set forth in paragraph 11.5(3)*"c."*

(6) Regardless of where an interview takes place, the department may visit the taxpayer's place of business or residence to establish facts that can only be established by direct visit, such as inventory or asset verification. The department generally will visit for these purposes on a normal workday of the department during the department's normal business hours.

11.5(4) *Audio recordings of taxpayer interviews.*

a. The department and a taxpayer are permitted to make an audio recording of any interview of the taxpayer by the department relating to the determination or collection of any tax. A recording of the interview by a taxpayer is at the taxpayer's own expense and must be with the taxpayer's own equipment.

b. Notification of intent to make audio recordings must be addressed by the taxpayer to the department employee who is conducting the interview, or by the department to the taxpayer, and must be received before the day of the interview. If adequate advance notice is not given, the party who failed to receive timely notification may, in their discretion, proceed with the interview or schedule a new date for the interview.

c. If the interview is recorded by the department, the taxpayer or their representative may, upon request, receive a transcript or copy of the recording. Such requests must be addressed to the employee conducting the interview and must be received by the department no later than 30 calendar days after the date of the recording. The taxpayer must pay the costs of duplication or transcription.

d. At the beginning of the recording of an interview, the department employee conducting the interview must state the employee's name, the date, the time, the place, and the purpose of the interview. At the end of the interview, the department employee will state that the interview has been completed and that the recording has ended.

e. When written records are presented or discussed during the interview being recorded, they must be described in sufficient detail to make the audio recording a meaningful record when matched with the other documentation contained in the case file.

This rule is intended to implement Iowa Code section 421.60.

[**ARC 8947C**, IAB 2/19/25, effective 3/26/25]

701—11.6(421) Adjustments.

11.6(1) *Notice of proposed adjustments.*

a. An employee of the department designated by the director to examine returns and make audits who discovers discrepancies or omissions in returns or who discovers that no return was filed when one was due is authorized to notify the person of this discovery by mail or electronically in accordance with rule 701—8.6(421). This notice is not an assessment. It informs the person of the amount that would be due if the proposed adjustments are finalized.

b. Right of person upon receipt of notice of adjustment. A person who has received notice of a proposed adjustment in connection with a return may do either of the following:

(1) Pay the additional amount stated to be due, if any. If payment is made and the person wishes to contest the matter, the person should then file a claim for refund. Payment is not required until an assessment is made, although interest will continue to accrue if payment is not made.

(2) If no payment is made, the person may discuss with the employee who notified the person of the proposed adjustments all matters of fact and law that may be relevant to the situation. This person may also ask for a conference with the Alcohol and Tax Compliance Division. Documents and records supporting the person's position may be required.

c. If after following the procedures outlined in this subrule, no agreement is reached and the person does not pay the amount determined to be correct, if any, or if the department in its discretion does not send notice of the proposed adjustments, the department will send a notice of assessment or a denial of a refund claim which initiates the appeal period.

11.6(2) *Notice of assessment.*

a. A notice of assessment will be issued in accordance with the Iowa Code, within the time period prescribed by the Iowa Code, and will be sent by mail or electronically in accordance with rule 701—8.6(421).

b. If the notice of assessment is timely appealed in accordance with 701—Chapter 7, proceedings to collect the tax will not be commenced until the appeal is ultimately determined unless the department has reason to believe that a delay caused by the appeal proceedings will result in an irrevocable loss of tax ultimately found to be due and owing the state of Iowa.

11.6(3) *Supplemental assessments.* The department may, at any time within the applicable statute of limitations period for examining a tax return, issue a supplemental assessment whenever it is ascertained that any prior assessment or refund adjustment was inaccurate. The department may also, at any time within the applicable statute of limitations period for examining a tax return, issue an assessment whenever it is ascertained that any prior refund was issued in error.

11.6(4) *Denial of a refund claim.* A denial of a refund claim will be issued in accordance with the Iowa Code. The department may issue a denial of a refund claim in whole or in part at any time if the department determines a claim for refund is untimely or without merit.

11.6(5) *Effect of resolved assessments or refund adjustments.* If an assessment or refund adjustment is appealed in accordance with 701—Chapter 7 and is resolved, whether by informal proceedings or by adjudication, the department and the taxpayer are precluded from making a supplemental assessment or refund adjustment concerning the same issue involved in the appeal for the same tax period unless there is a showing of mathematical or clerical error or a showing of fraud or misrepresentation.

This rule is intended to implement Iowa Code section 421.60.

[**ARC 8947C**, IAB 2/19/25, effective 3/26/25]

701—11.7(422,453B) Jeopardy assessments.

11.7(1) *Generally.* This rule governs jeopardy assessments for all taxes and charges administered by the department. A jeopardy assessment may be made where the director believes for any reason that assessment or collection of the tax will be jeopardized by delay. In addition, all assessments made pursuant to Iowa Code chapter 453B are jeopardy assessments. The department is authorized to estimate the applicable tax base and the tax upon available information, add penalty and interest, and demand immediate payment. Proceedings to enforce the payment of the assessment by seizure or sale of any property of the taxpayer may be instituted immediately.

11.7(2) *Request for bond.*

a. In the event a taxpayer seeks to post a bond in lieu of summary collection of a jeopardy assessment, pending final determination of the amount of tax legally due, the taxpayer must file a Jeopardy Assessment Bond Request Form, available on the department's website, with the clerk of the legal services division for the department. The department will accept or reject the bond request, in writing, within ten days. If the department does not respond within ten days, the bond request is deemed rejected. The department is not required to accept bond requests. If the department accepts the bond request, the clerk of the legal services division for the department shall be notified. The approval is conditioned upon the taxpayer's posting the bond in accordance with this rule.

b. Bond requests may be made any time after a timely appeal of the jeopardy assessment has been filed with the department in accordance with 701—Chapter 7, except that any bond request whereby the taxpayer seeks to postpone a scheduled sale of assets seized by or on behalf of the department must be filed with the clerk of the legal services division for the department no later than ten days from the date on which

notice of the sale was mailed to, or otherwise served upon, the taxpayer. Portions of an assessment that are undisputed must be paid in full at the time a bond request is filed.

11.7(3) *Posting of bond.* If the department accepts the bond request, the taxpayer shall post the bond within 15 days from the date the taxpayer was notified of the acceptance by the department. If the taxpayer fails to post the bond by the deadline, the bond request is deemed rejected and no bond will be allowed.

11.7(4) *Type of bond.*

a. The bond shall be payable to the department for the use of the state of Iowa and shall be conditioned upon the full payment of the tax, penalty, interest, or fees that are found to be due which remain unpaid upon the resolution of the contested case proceedings up to the amount of the bond.

b. A personal bond, without a surety, is only permitted if the taxpayer posts with the clerk of the legal services division for the department, cash, a cashier's check, a certificate of deposit, or other marketable securities which are approved by the department with a readily ascertainable value which is equal in value to the total amount of the bond required. If a surety bond is posted, the surety on the bond may be either personal or corporate. The provisions of Iowa Code chapter 636 relating to personal and corporate sureties shall govern to the extent not inconsistent with the provisions of this subrule.

11.7(5) *Form of surety bond.* The surety bond posted shall be in substantially the following form:

BEFORE THE IOWA STATE DEPARTMENT OF REVENUE

HOOVER STATE OFFICE BUILDING

DES MOINES, IOWA

IN THE MATTER OF	*	
	*	
(Taxpayer's Name, Address and	*	SURETY BOND
designate proceeding, e.g.,	*	
income, sales, etc.)	*	DOCKET NO.
	*	

KNOW ALL PERSONS BY THESE PRESENTS:

That we _____(taxpayer)_____ as principal, and _____(surety)_____, as surety, of the county of _____, and State of Iowa, are held and firmly bound unto the Iowa Department of Revenue for the use of the State of Iowa, in the sum of $ _____ dollars, lawful money of the United States, for the payment of which sum we jointly and severally bind ourselves, our heirs, devisees, successors and assigns firmly by these presents. The condition of the foregoing obligations are, that, whereas the above-named principal has protested an assessment of tax, penalty, interest, or fees or any combination of them, made by the Iowa Department of Revenue, now if the principal _____ shall promptly pay the amount of the assessed tax, penalty, interest or fees found to be due upon the resolution of the contested case proceedings, then this bond shall be void, otherwise to remain in full force and effect.

Dated this _____ day of _____, _____.

_____
Principal

_____
Surety

_____
Surety

(corporate acknowledgment if surety is a corporation)

AFFIDAVIT OF PERSONAL SURETY

STATE OF IOWA)
ss
COUNTY OF)

I hereby swear or affirm that I am a resident of Iowa and am worth beyond my debts the amount set opposite my signature below in the column entitled, "Worth Beyond Debts," and that I have property in

the State of Iowa, liable to execution equal to the amount set opposite my signature in the column entitled "Property in Iowa Liable to Execution."

Signature	Worth Beyond Debts	Property in Iowa Liable to Execution
_____	$ _____	$ _____
Surety (type name)		
_____	$ _____	$ _____
Surety (type name)		

Subscribed and sworn to before me the undersigned Notary Public this _____ day of _____, _____.

(Seal) Notary Public in and for the State of Iowa

11.7(6) *Duration of bond.* The bond shall remain in full force and effect until the conditions of the bond have been fulfilled or until the bond is otherwise exonerated as provided by law.

11.7(7) *Exoneration of bond.* Upon conclusion of the contested case administrative proceedings, the bond shall be exonerated by the department when any of the following events occur: upon full payment of the tax, penalty, interest, costs or fees found to be due; upon filing a bond for the purposes of judicial review which bond is sufficient to secure the unpaid tax penalty, interest, costs and fees; or if no additional tax, penalty, interest, costs or fees are found to be due that have not been previously paid, upon entry of a final unappealable order which resolves the underlying appeal.

This rule is intended to implement Iowa Code sections 422.30 and 453B.9.

[**ARC 8947C**, IAB 2/19/25, effective 3/26/25; **ARC 0321D**, IAB 5/27/26, effective 7/1/26]

701—11.8(421,422) Application of payments to fees, penalty, interest, and then tax due. This rule governs the application of payments for all taxes and charges administered by the department.

11.8(1) *Reapplication of prior payments.* The department will not reapply prior payments made on or before the due date of the original return by the taxpayer to penalty or interest determined to be due after the date of those prior payments. However, the department will apply payments to penalty and interest which were due at the time the payment was made.

Example (a) — Delinquent Return

a. Tax due is $1,000.

b. Return filed two months late.

c. $1,000 paid with the return.

d. Assume 0.7% monthly interest for purpose of example.

e. The department bills the additional tax in the third month after the due date. The taxpayer pays the assessment in the third month.

The computation of fees, penalty, interest, and tax is shown below:

Tax	$1,000.00	
Penalty	100.00	(5% failure to file penalty and 5% failure to timely pay penalty)
Interest	14.00	(2 months interest)
Subtotal	$1,114.00	
Less payment	(1,000.00)	
Remaining tax due	$ 114.00	
Interest	.80	(1 month interest)
Total due	$ 114.80	

Two years after the due date, the Internal Revenue Service conducts an audit and increases the taxpayer's taxable income. The department redetermines the taxpayer's liability 26 months after the due date as follows:

Tax as redetermined by the department	$1,100.00

Penalty	110.00	(5% failure to file penalty and 5% failure to timely pay penalty)
Interest	15.40	(2 months interest)
Less payment	($1,000.00)	
Subtotal	$225.40	
Interest	1.58	(1 month interest)
Less payment	($114.80)	
Remaining tax due	$112.18	
Interest	18.06	(23 months interest)
Total due	$ 130.24	

Example (b) — Timely Filed No Remit
a. Tax due is $1,000.
b. Return timely filed.
c. $0 paid.
d. Assume 0.7% monthly interest for purpose of example.
The calculation for the total amount due five months after the due date is shown below:

Tax	$1,000.00	
Penalty	50.00	(5% failure to timely pay penalty)
Interest	35.00	(5 months interest)
Total due	$1,085.00	

The department bills the amount due in the fifth month after the due date and the taxpayer pays the billed amount in the eighth month after the due date. The payment is applied as follows:

Tax	$1,000.00	
Penalty	50.00	(5% failure to timely pay penalty)
Interest	56.00	(8 months interest)
Subtotal	$1,106.00	
Less payment	($1,085.00)	
Remaining tax due	$ 21.00	

Taxpayer does not pay the remaining tax due of $21, which continues to accrue interest. Three years after the due date the taxpayer reports the result of an Internal Revenue Service audit which increases the taxpayer's income and tax due to the department. The department recomputes the taxpayer's liability as follows:

Tax as redetermined by the department	$1,200.00	
Penalty	60.00	(5% failure to timely pay penalty)
Interest	67.20	(8 months interest)
Less payment	($1,085.00)	
Remaining tax due	$ 242.20	
Interest	47.47	(28 months interest)
Total due	$289.67	

11.8(2) *Refunds from department audit.* In those instances where a department audit reduced the amount of tax, fees, penalty, and interest due over the amount paid, the department will, when possible, reapply payments so that the amount refunded is tax on which interest will accrue as set forth in the Iowa Code.

11.8(3) *Partial payments.*

a. Where partial payments are made, the department will apply payments to fees, penalty, interest, and then to tax due. If fees, penalty, interest, and tax are due and owing for more than one tax period, any payment must be applied first to the fees, penalty, then the interest, then the tax for the earliest period, then to the fees, penalty, interest, and tax for each following tax period in chronological order from the earliest tax period to the latest tax period, until the payment is exhausted.

b. Where there are both agreed-to and unagreed-to items as a result of an audit, the taxpayer and the department may agree to apply payments to the fees, penalty, interest, and then to tax due on the agreed-to items of the audit when all of the fees, penalty, interest, and tax on the agreed-to items are paid. In these instances, subsequent payments will not be applied to fees, penalty, and interest accrued on the agreed-to items of the audit.

11.8(4) *Taxpayer designation of tax type and period to which voluntary payments are to be applied.*

a. A taxpayer may designate in a separate written instruction at the time a voluntary payment is made the type of tax and tax periods to which any voluntary payment is to be applied.

b. The taxpayer may not designate the application of a voluntary payment between fees, penalty, interest, and tax due for a particular type of tax or tax period.

c. The taxpayer may not designate the application of payments which are the result of a jeopardy assessment or enforced collection. Enforced collection includes, but is not limited to, garnishment of wages or bank accounts, setoff of public payments as defined in Iowa Code section 421.65, and seizure of assets.

This rule is intended to implement Iowa Code sections 421.60 and 422.25.

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