

701—304.16(422) Franchise tax credit. A shareholder in a financial institution, as defined in Section 581 of the Internal Revenue Code, or a member of a financial institution organized as a limited liability company that is taxed as a partnership for federal income tax purposes that has elected to have its income taxed directly to the shareholders or members may take a tax credit equal to the shareholder's or member's pro rata share of the Iowa franchise tax paid by the financial institution.

304.16(1) Credit calculation.

a. The credit must be calculated by recomputing the amount of tax calculated under Iowa Code section 422.5 by reducing the shareholder's or member's taxable income by the shareholder's or member's pro rata share of the items of income and expenses of the financial institution and subtracting the credits allowed in Iowa Code section 422.12.

b. The resulting amount, not to exceed the shareholder's or member's pro rata share of the franchise tax paid by the financial institution, is the amount of tax credit allowed the shareholder or member.

304.16(2) Credit calculation for combined return filers.

a. Where the financial institution has elected to file a combined return with one or more investment subsidiaries pursuant to rule 701—602.33(422), the franchise tax paid by the financial institution for purposes of calculating this credit is a portion of the tax paid by the combined group equal to the portion of the combined group's total taxable income attributable to the financial institution.

b. This credit is not available to shareholders or members of investment subsidiaries included on a combined return under rule 701—602.33(422) for that portion of the tax shown due on the return attributable to the investment subsidiary.

304.16(3) Combined filer credit calculation formula. The following formula determines the portion of a combined group's tax that may be used to calculate a shareholder's or member's franchise tax credit.

PTI = parent financial institution separate taxable income (if zero or less, no credit is available)

CTI = combined group taxable income

GT = combined group total tax (if zero or less, no credit is available)

$$\text{PTI/CTI}^* \times \text{GT} = \text{tax eligible for the credit}$$

*If PTI/CTI is 1 or greater, 100 percent of the tax is attributable to the parent financial institution.

EXAMPLE: Parent financial institution B, an S corporation, and its investment subsidiary C elect to file a combined Iowa franchise return. B's separate taxable income is \$750,000, and the group's combined taxable income is \$1,000,000. The combined group's Iowa franchise tax liability is \$41,000 (at a rate of 4.1 percent for 2025). B contributed 75 percent (0.75) of the group's combined taxable income. The tax available to B's shareholders for purposes of calculating the Iowa franchise tax is \$30,750 ($41,000 \times 0.75$).

This rule is intended to implement Iowa Code section 422.11.

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