

701—39.6 (422) Minimum tax.

39.6(1) *Minimum tax for tax years beginning on or after 1982, but before 1985.* Rescinded IAB 11/24/04, effective 12/29/04.

39.6(2) *Minimum tax for tax years beginning on or after January 1, 1985, but before January 1, 1987.* Rescinded IAB 11/24/04, effective 12/29/04.

39.6(3) *Minimum tax for tax years beginning on or after January 1, 1987.*

a. Method for computation of the minimum tax. For tax years beginning on or after January 1, 1987, the minimum tax is imposed only to the extent that the minimum tax exceeds the taxpayer's regular income tax liability. The minimum tax rate is 75 percent of the maximum regular tax rate for individual income tax. For tax years beginning on or after January 1, 1987, through December 31, 1997, the tax rate is 7.5 percent of the taxpayer's minimum taxable income. For tax years beginning on or after January 1, 1998, the tax rate is 6.7 percent of the taxpayer's minimum taxable income. Minimum taxable income is computed as follows:

	Iowa Taxable Income
Plus:	<u>*Applicable Adjustments and **Tax Preference Items (from Form IA 6251)</u>
	Subtotal
Less:	<u>***Applicable Exemption Amount</u>
	Minimum Taxable Income

(1) *The federal adjustments that are also applicable in computing state minimum taxable income are:

1. Depreciation of property placed in service after 1986.
2. Circulation and research and experimental expenditures paid or incurred after 1986.
3. Mining, exploration, and development costs paid or incurred after 1986.
4. Long-term contracts entered into after 2-28-86.
5. Pollution control facilities placed in service after 1986.
6. Installment sales of certain property.
7. Basis adjustment.
8. Certain loss limitations.
9. Tax shelter farm loss.
10. Passive activity loss.
11. Adjustments related to beneficiaries of estates and trusts.

(2) **The federal tax preference items which are also applicable in computing state minimum taxable income are:

1. Accelerated depreciation of real property placed in service before 1987.
2. Accelerated depreciation on leased personal property placed in service before 1987.
3. Amortization of certified pollution control facilities placed in service before 1987.
4. Appreciated property charitable deduction.
5. Incentive stock options.
6. Reserves for losses on bad debts of financial institutions.

For tax periods ending on or after September 10, 2001, any federal adjustments or tax preference items that are determined based on a percentage of taxpayer's federal adjusted gross income may have to be adjusted for Iowa alternative minimum tax purposes. These adjustments and preferences for Iowa alternative minimum tax purposes are based on federal adjusted gross income as adjusted by the disallowance of the additional first-year depreciation allowance authorized in Section 168(k) of the Internal Revenue Code as described in rule 701—40.60(422).

(3) ***Exemption amounts are: \$17,500 for a married person filing a separate return or separately on the combined return form or for an estate or trust; \$26,000 for a single person or a head of household or qualifying widow(er); \$35,000 for a married couple filing a joint return. However, the applicable exemption amounts will be reduced, but not below zero, by 25 percent of the amount by which the

minimum taxable income of the taxpayer determined without the exemption amount exceeds the following amounts: \$75,000 for a married taxpayer filing separate returns or separately on the combined return or for an estate or a trust; \$112,500 for a single person, a head of household, or a surviving spouse (qualifying widow(er)); \$150,000 for a married couple that files a joint state return.

The following two examples illustrate how the minimum tax is computed for tax years beginning on or after January 1, 1987:

EXAMPLE 1. Taxpayers A had an Iowa income tax liability of \$9,375 from a taxable income of \$100,000 in 1987. The A's were filing a joint return and had tax preferences of \$60,000 from an appreciated property charitable deduction. The A's minimum tax liability is shown below:

	Iowa Taxable Income	\$100,000
Plus:	Tax Preference Items and Adjustments	<u>60,000</u>
	Subtotal	160,000
Less:	Exemption Amount	<u>35,000</u>
	Minimum Taxable Income	\$125,000
		<u>× .075</u>
	Computed Minimum Tax	\$ 9,375
Less:	Regular Tax	<u>8,648</u>
	Minimum Tax Liability	\$ 727

Since the A's minimum tax liability exceeded their regular tax by \$727, they had a minimum tax liability of \$727 in 1987.

EXAMPLE 2. Ms. B was a single taxpayer in 1987. She had a regular income tax liability of \$9,375 on taxable income of \$100,000. She had an adjustment of \$50,000 from a passive activity loss. Ms. B's minimum tax liability is shown below:

	Iowa Taxable Income	\$100,000
Plus:	Tax Preference Items and Adjustments	<u>50,000</u>
	Subtotal	\$150,000
Less:	Exemption Amount	<u>35,000</u>
	Subtotal	\$115,000
Plus:	Reduction in Exemption Amount (25% of \$37,500)	<u>9,375</u>
	Minimum Taxable Income	\$124,375
		<u>× .075</u>
	Computed Minimum Tax	\$ 9,328
Less:	Regular Tax	<u>8,648</u>
	Minimum Tax Liability	\$ 680

Ms. B had a minimum tax liability of \$680 in 1987 because the minimum tax exceeded the regular tax for 1987 by \$680.

b. Net operating loss computed for a year beginning after 1982 which is carried back or carried forward to the current taxable year. In the case of a net operating loss computed for a tax year beginning after December 31, 1982, which is carried back or carried forward to the current tax year, the net operating loss shall be reduced by the amount of tax preferences and adjustments arising in the current tax year.

c. Net operating loss deduction for tax years beginning after December 31, 1986. The deduction for a net operating loss for a tax year beginning after December 31, 1986, which is carried back or carried forward to another tax year shall not exceed 90 percent of the minimum taxable income computed for the tax year without the net operating loss. The computation of minimum taxable income is described in paragraph “a” of this subrule.

d. Apportionment of minimum tax for nonresidents and part-year residents and nonresident and part-year resident estates or trusts. In the case of resident taxpayers, including estates or trusts domiciled in Iowa for the entire tax year, the taxpayers are subject to 100 percent of the minimum tax computed as described in paragraph “a” of this subrule. In the case of nonresidents of Iowa including nonresident estates and trusts and individuals, including estates and trusts domiciled in Iowa for less than the entire tax year, the minimum tax computed according to paragraph “a” of this subrule less applicable credits against tax is allocated to Iowa as shown below:

$$\begin{array}{r} \text{State Minimum Tax} \\ \text{Less Credits} \end{array} \times \frac{\begin{array}{r} \text{Iowa Source Net Income Plus Tax} \\ \text{Preferences, Adjustments and} \\ \text{Losses Attributable to Iowa} \end{array}}{\begin{array}{r} \text{Total Net Income Plus All Tax} \\ \text{Preferences, Adjustments and Losses} \end{array}}$$

For purposes of this computation, only those adjustments, tax preferences, and losses shown on Form IA 6251 are applicable for determining which items shall be included in the numerator and the denominator.

e. Allocation of the state minimum tax between married couples filing separate returns or separately on the combined return form. Married taxpayers electing to file separate returns or separately on the combined return form must allocate the minimum tax between them in the proportion that each spouse’s respective preference items, adjustments, and losses relate to the preference items, adjustments and losses of both spouses.

This rule is intended to implement Iowa Code section 422.5 as amended by 2003 Iowa Acts, Senate File 442.