

**701—48.7 (422) Determination of composite Iowa tax.**

**48.7(1)** The tax will be computed in accordance with Iowa Code section 422.5, including the alternative minimum tax as though a resident.

**48.7(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<br>$\$800,000 \times 87\%$                                      | \$696,000              |
| Add: electing shareholders' share of income items<br>which flow separately to shareholders $\$6,000 \times 87\%$ | 5,220                  |
| Less: electing shareholders' share of expenses which<br>flow separately to shareholders $\$500,000 \times 87\%$  | <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<br>$3 \times \$1,280$   | < 3,840>               |
| Federal tax deduction $\$66,555 \times 5\%$  | <u>&lt; 3,328&gt;</u>  |
| Iowa taxable income  | \$ 59,387              |
| Computed tax   | \$ 4,515               |
| Less: one personal exemption credit per<br>shareholder $3 \times \$20$   | <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<br>to electing shareholders times Iowa activity ratio<br>$\$475,000 \times 87\% \times 25\%$ | <u>103,313</u>                  |
|  | \$162,700                       |
| Less: exemption  | <u>35,000</u>                   |
| Minimum taxable income   | \$127,700                       |
| times minimum tax rate 7.5%  | <u><math>\times .075</math></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]