

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><435,000></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	<u>< 3,840></u>
Federal tax deduction \$66,555 × 5%	<u>< 3,328></u>
Iowa taxable income	\$ 59,387
Computed tax	\$ 4,515
Less: one personal exemption credit per shareholder 3 × \$20	<u>< 60></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>< 4,455 ></u>
Minimum tax liability	<u>\$ 5,123</u>

This rule is intended to implement Iowa Code section 422.13.
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