

701—10.2(421) Interest.

10.2(1) Rate determination. Except where a different rate of interest is provided by Title X of the Iowa Code, the rate of interest on interest-bearing taxes and interest-bearing refunds arising under Title X is fixed for each calendar year by the director. In addition to any penalty computed, there shall be added interest as provided by law from the original due date of the return. Any portion of the tax imposed by statute that has been erroneously refunded and is recoverable by the department shall bear interest as provided in Iowa Code section 421.7(2) from the date of payment of the refund, considering each fraction of a month as an entire month.

10.2(2) Examples of the application of interest. The following scenarios demonstrate how interest will be applied to tax liabilities and refunds under various fact patterns. For purposes of these examples, the interest rate in effect for year one is 5 percent per year, the interest rate in effect for year two is 7.5 percent per year, and the interest rate in effect for year three is 10 percent per year.

EXAMPLE 1: The taxpayer, A Corp, owes corporate income taxes assessed for tax year zero. The assessment was made by the department in year one. On January 1 of year two, that assessment had not been paid. The rate of interest on the unpaid tax assessed has accrued at the rate of 5 percent per annum (0.416 percent per month) through December 31 of year one. Commencing on January 1 of year two, the rate of interest on the unpaid tax will accrue at the rate of 7.5 percent per annum for the year (0.625 percent per month).

EXAMPLE 2: The taxpayer, Y, owes retail sales taxes assessed to it for the audit period January 1, through December 31 of year one. The assessment is made on March 1 of year two. For the tax periods in which the tax became due prior to January 1 of year two, the interest rate on such unpaid sales taxes accrued at 5 percent per annum (0.416 percent per month). Commencing on January 1 of year two, the entire unpaid portion of the tax assessed that was delinquent at that time will begin to accrue interest at the rate of 7.5 percent per annum. Those portions of the tax assessed first becoming delinquent in year two will bear interest at the rate of 7.5 percent per annum (0.625 percent per month). In the event that any portion of the tax assessed remains unpaid on January 1 of year three, the rate of interest will then accrue in year three at a rate of 10 percent per annum (0.833 percent per month).

EXAMPLE 3: The taxpayer, Z, files a refund claim for tax year zero individual income taxes in March of year two. The refund claim is allowed in May of year two and is paid. Z is entitled to receive interest at the rate of 5 percent per annum (0.416 percent per month) upon the refunded tax accruing through December 31 of year one and is entitled to interest at the rate of 7.5 percent per annum (0.625 percent per month) upon such tax from January 1 of year two until the refund is paid.

EXAMPLE 4: A's tax year zero individual income tax liability becomes delinquent on May 1 of year one. A owes interest, commencing on May 1 of year one at the rate of 5 percent per annum (0.416 percent per month). In the event that A does not pay the liability in year one, the interest will then accrue in year two at a rate of 7.5 percent per annum (0.625 percent per month).

EXAMPLE 5: Decedent died December 31 of year zero. The inheritance tax was due 12 months after death or December 31 of year one. Prior to the due date, the estate was granted an extension of time, until September 1 of year two, to file the return and pay the tax due. The tax, however, was paid March 15 of year three. Interest accrues on the unpaid tax during the period of the extension of time (January 1 to September 1 of year two) and the remainder of year two at the rate of 7.5 percent per annum. Interest accrues on the delinquent tax from January 1 to the date of payment on March 15 of year three at the rate of 10 percent per annum.

The examples set forth in these rules are not meant to be all-inclusive. In addition, other rules set forth the precise circumstance when interest begins to accrue and whether interest accrues for each month or fraction of a month or annually as provided by law. Interest accrues as provided by law, regardless of whether the department has made a formal assessment of tax.

This rule is intended to implement Iowa Code section 421.7.

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