

**701—11.8(421,422) Application of payments to fees, penalty, interest, and then tax due.** This rule governs the application of payments for all taxes and charges administered by the department.

**11.8(1) Reapplication of prior payments.** The department will not reapply prior payments made on or before the due date of the original return by the taxpayer to penalty or interest determined to be due after the date of those prior payments. However, the department will apply payments to penalty and interest which were due at the time the payment was made.

**Example (a) — Delinquent Return**

- a. Tax due is \$1,000.
- b. Return filed two months late.
- c. \$1,000 paid with the return.
- d. Assume 0.7% monthly interest for purpose of example.
- e. The department bills the additional tax in the third month after the due date. The taxpayer pays the assessment in the third month.

The computation of fees, penalty, interest, and tax is shown below:

Tax	\$1,000.00
Penalty	100.00 (5% failure to file penalty and 5% failure to timely pay penalty)
Interest	14.00 (2 months interest)
Subtotal	<u>\$1,114.00</u>
Less payment	<u>(1,000.00)</u>
Remaining tax due	\$ 114.00
Interest	.80 (1 month interest)
Total due	<u>\$ 114.80</u>

Two years after the due date, the Internal Revenue Service conducts an audit and increases the taxpayer's taxable income. The department redetermines the taxpayer's liability 26 months after the due date as follows:

Tax as redetermined by the department	\$1,100.00
Penalty	110.00 (5% failure to file penalty and 5% failure to timely pay penalty)
Interest	15.40 (2 months interest)
Less payment	<u>(\$1,000.00)</u>
Subtotal	\$225.40
Interest	1.58 (1 month interest)
Less payment	<u>(\$114.80)</u>
Remaining tax due	\$112.18
Interest	18.06 (23 months interest)
Total due	<u>\$ 130.24</u>

**Example (b) — Timely Filed No Remit**

- a. Tax due is \$1,000.
- b. Return timely filed.
- c. \$0 paid.
- d. Assume 0.7% monthly interest for purpose of example.

The calculation for the total amount due five months after the due date is shown below:

Tax	\$1,000.00
Penalty	50.00 (5% failure to timely pay penalty)
Interest	35.00 (5 months interest)
Total due	<u>\$1,085.00</u>

The department bills the amount due in the fifth month after the due date and the taxpayer pays the billed amount in the eighth month after the due date. The payment is applied as follows:

Tax	\$1,000.00
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Penalty	50.00 (5% failure to timely pay penalty)
Interest	56.00 (8 months interest)
Subtotal	\$1,106.00
Less payment	<u>(\$1,085.00)</u>
Remaining tax due	\$ 21.00

Taxpayer does not pay the remaining tax due of \$21, which continues to accrue interest. Three years after the due date the taxpayer reports the result of an Internal Revenue Service audit which increases the taxpayer's income and tax due to the department. The department recomputes the taxpayer's liability as follows:

Tax as redetermined by the department	\$1,200.00
Penalty	60.00 (5% failure to timely pay penalty)
Interest	67.20 (8 months interest)
Less payment	<u>(\$1,085.00)</u>
Remaining tax due	\$ 242.20
Interest	47.47 (28 months interest)
Total due	\$289.67

**11.8(2) Refunds from department audit.** In those instances where a department audit reduced the amount of tax, fees, penalty, and interest due over the amount paid, the department will, when possible, reapply payments so that the amount refunded is tax on which interest will accrue as set forth in the Iowa Code.

**11.8(3) Partial payments.**

*a.* Where partial payments are made, the department will apply payments to fees, penalty, interest, and then to tax due. If fees, penalty, interest, and tax are due and owing for more than one tax period, any payment must be applied first to the fees, penalty, then the interest, then the tax for the earliest period, then to the fees, penalty, interest, and tax for each following tax period in chronological order from the earliest tax period to the latest tax period, until the payment is exhausted.

*b.* Where there are both agreed-to and unagreed-to items as a result of an audit, the taxpayer and the department may agree to apply payments to the fees, penalty, interest, and then to tax due on the agreed-to items of the audit when all of the fees, penalty, interest, and tax on the agreed-to items are paid. In these instances, subsequent payments will not be applied to fees, penalty, and interest accrued on the agreed-to items of the audit.

**11.8(4) Taxpayer designation of tax type and period to which voluntary payments are to be applied.**

*a.* A taxpayer may designate in a separate written instruction at the time a voluntary payment is made the type of tax and tax periods to which any voluntary payment is to be applied.

*b.* The taxpayer may not designate the application of a voluntary payment between fees, penalty, interest, and tax due for a particular type of tax or tax period.

*c.* The taxpayer may not designate the application of payments which are the result of a jeopardy assessment or enforced collection. Enforced collection includes, but is not limited to, garnishment of wages or bank accounts, setoff of public payments as defined in Iowa Code section 421.65, and seizure of assets.

This rule is intended to implement Iowa Code sections 421.60 and 422.25.

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