

701—405.3(422) Filing and payment for pass-through entities.

405.3(1) Filing requirement. A pass-through entity that is required to file an Iowa partnership return (IA 1065), Iowa income tax return for S corporations (IA 1120S), or Iowa fiduciary return (IA 1041) and that has one or more nonresident members for any period of time during the tax year is required to file a composite return unless it meets the conditions for an exception outlined in subrule 405.5(1).

a. A pass-through entity with nonresident members must file a composite return and pay composite return tax on behalf of all nonresident members, except for the nonresident members the pass-through entity can demonstrate are exempt from the composite return requirement pursuant to subrule 405.5(2) or that have elected out of the composite return requirement pursuant to rule 701—405.6(422).

b. A pass-through entity must report all of its nonresident members, including nonresident members who are exempt from or who elect out of the composite return requirement, even though the pass-through entity is not required to pay composite return tax on behalf of those nonresident members. If all nonresident members are exempt from or elect out of the composite return requirement, the pass-through entity shall file a composite return reporting required information about all of its nonresident members and showing no composite return tax due.

c. Any pass-through entity required to file its Iowa partnership return (IA 1065), Iowa income tax return for S corporations (IA 1120S), or Iowa fiduciary return (IA 1041) for a tax year in an electronic format under Iowa Code section 422.14, 422.15, or 422.36 shall also be required to file its composite return for that tax year in an electronic format. Rule 701—8.7(422) contains more information about mandatory electronic filing requirements.

d. The composite return may be filed electronically by way of the Internal Revenue Service Modernized e-File (MeF) program, also known as federal/state electronic filing; mailed to Income Tax Return Processing, Iowa Department of Revenue, P.O. Box 9187, Des Moines, Iowa 50306-9187; or hand-delivered to the department's office in the Hoover State Office Building, First Floor, 1305 East Walnut Street, Des Moines, Iowa 50319.

405.3(2) Due date of composite return—automatic extensions. The composite return is due and must be filed on or before the due date of the pass-through entity's Iowa partnership return (IA 1065), Iowa income tax return for S corporations (IA 1120S), or fiduciary return (IA 1041), whichever is applicable. If the pass-through entity qualifies for and receives an extension to file its Iowa income tax return, it will also automatically qualify for and receive the same period of extension to file its composite return. Any composite return filed after the due date, including extensions, may be subject to the penalty for failure to timely file a return pursuant to rules 701—10.6(421) and 701—10.9(421) and subject to other applicable penalties provided by law.

405.3(3) Due date of composite return tax. The composite return tax is due by the original due date of the pass-through entity's Iowa partnership return (IA 1065), Iowa income tax return for S corporations (IA 1120S), or fiduciary return (IA 1041), whichever is applicable. The filing extension described in subrule 405.3(2) does not extend the due date for paying the composite return tax. Any unpaid composite return tax is subject to interest computed from the original due date of the pass-through entity's applicable income tax return. The pass-through entity may also be subject to the penalty for failure to timely pay tax due pursuant to rule 701—10.6(421) and other applicable penalties provided by law.

405.3(4) Payment of estimated composite return tax not required. Pass-through entities are not required under Iowa law to make payments of estimated composite return tax. However, if a pass-through entity desires to make an estimated or other advance payment of composite return tax liability, the pass-through entity may do so electronically on GovConnectIowa or by sending a check with a voucher available on GovConnectIowa.

405.3(5) Amended composite returns—refund limitation.

a. If the pass-through entity becomes aware that information was erroneously stated on the composite return, including but not limited to information about the nonresident members, Iowa-source income, or composite return tax due, the pass-through entity shall file an amended composite return, except as otherwise provided in this subrule.

b. If after filing an initial composite return for a tax year the pass-through entity is required to amend its Iowa income tax return in a manner that increases the amount of composite return tax due, or the

pass-through entity discovers that nonresident members were erroneously excluded from the composite return, the pass-through entity shall file an amended composite return and pay the additional composite return tax that is due. Any additional composite return tax payment determined to be due after the filing of the initial composite return shall be made by the pass-through entity. An amended composite return and additional composite return tax payment is not required if the return changes are from a centralized partnership audit or an Iowa pass-through entity audit and included in a pass-through entity's election to pay on its owners' behalf pursuant to Iowa Code section 422.25A(5).

c. If after filing an initial composite return for a tax year the pass-through entity is required to amend its Iowa income tax return in a manner that only decreases the amount of Iowa-source income reportable to one or more nonresident owners, the pass-through entity is not required to file an amended composite return. A pass-through entity may not request a refund of composite return tax paid on behalf of a nonresident member after the initial composite tax return has been filed. When composite return tax is paid by a pass-through entity on behalf of a nonresident member, it is then treated as paid by the nonresident member and any refund of an overpayment may only be requested by the nonresident member on that nonresident member's own income, franchise, or composite return.

This rule is intended to implement Iowa Code section 422.16B.
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