

**701—52.5 (422) Minimum tax.**

**52.5(1)** Rescinded IAB 11/24/04, effective 12/29/04.

**52.5(2)** For tax years beginning after 1997, a small business corporation or a new corporation for its first year of existence, which through the operation of Internal Revenue Code Section 55(e) is exempt from the federal alternative minimum tax, is not subject to Iowa alternative minimum tax. A small business corporation may apply any alternative minimum tax credit carryforward to the extent of its regular corporation income tax liability.

For tax years beginning on or after January 1, 1987, the minimum tax is imposed only to the extent that it exceeds the taxpayer's regular tax liability computed under Iowa Code subsection 422.33(1). The minimum tax rate is 60 percent of the maximum corporate tax rate rounded to the nearest one-tenth of 1 percent or 7.2 percent. Minimum taxable income is computed as follows:

|         |  |
|---------|--|
|         | State taxable income as adjusted by Iowa Code section 422.35   |
| Plus:   | Tax preference items, adjustments and losses added back  |
| Less:   | Allocable income including allocable preference items and adjustments under Section 56 of the Internal Revenue Code including adjusted current earnings related to allocable income including the allocable preference items         |
|         | Subtotal   |
| Times:  | Apportionment percentage   |
|         | Result   |
| Plus:   | Income allocable to Iowa including allocable preference items and adjustments under Section 56 of the Internal Revenue Code including adjusted current earnings related to allocable income including the allocable preference items |
| Less:   | Iowa alternative tax net operating less deduction<br>\$40,000 exemption amount   |
| Equals: | Iowa alternative minimum taxable income  |

For tax years beginning on or after January 1, 1987, the items of tax preference are the same items of tax preference under Section 57 except for Subsections (a)(1) and (a)(5) of the Internal Revenue Code used to compute federal alternative minimum taxable income. The adjustments to state taxable income are those adjustments required by Section 56 except for Subsections (a)(4) and (d) of the Internal Revenue Code used to compute federal alternative minimum taxable income. In making the adjustment under Section 56(c)(1) of the Internal Revenue Code, interest and dividends from federal securities net of amortization of any discount or premium shall be subtracted. For tax years beginning on or after January 1, 1988, in making the adjustment under Section 56(c)(1) of the Internal Revenue Code, interest and dividends from state and other political subdivisions and from regulated investment companies exempt from federal income tax under the Internal Revenue Code shall be subtracted net of amortization of any discount or premium. In making the adjustment for adjusted current earnings, subtract Foreign Sales Company (FSC) dividend income and Puerto Rican dividend income computed under Internal Revenue Code Section 936 to the extent they are included in the federal computation of adjusted current earnings. Losses to be added are those losses required to be added by Section 58 of the Internal Revenue Code in computing federal alternative minimum taxable income.

- a.* Tax preference items are:
1. Intangible drilling costs;

2. Incentive stock options;
3. Reserves for losses on bad debts of financial institutions;
4. Appreciated property charitable deductions;
5. Accelerated depreciation or amortization on certain property placed in service before January 1, 1987.

*b.* Adjustments are:

1. Depreciation;
2. Mining exploration and development;
3. Long-term contracts;
4. Iowa alternative minimum net operating loss deduction;
5. Book income or adjusted earnings and profits.

*c.* Losses added back are:

1. Farm losses;
2. Passive activity losses.

Computation of Iowa alternative minimum tax net operating loss deduction.

Net operating losses computed under rule 701—53.2(422) carried forward from tax years which begin before January 1, 1987, are deductible without adjustment.

Net operating losses from tax years which begin after December 31, 1986, which are carried back or carried forward to the current tax year shall be reduced by the amount of tax preferences and adjustments taken into account in computing the net operating loss prior to applying rule 701—53.2(422). The deduction for a net operating loss from a tax year beginning after December 31, 1986, which is carried back or carried forward shall not exceed 90 percent of the alternative minimum taxable income computed without regard for the net operating loss deduction.

The exemption amount shall be reduced by 25 percent of the amount that the alternative minimum taxable income computed without regard to the \$40,000 exemption exceeds \$150,000. The exemption shall not be reduced below zero.

EXAMPLE: The following example shows the computation of the alternative minimum tax when there are net operating loss carryforwards and carrybacks including an alternative minimum tax net operating loss.

For tax year 1987, the following information is available:

|                                     |           |
|-------------------------------------|-----------|
| Federal taxable income before NOL   | \$182,000 |
| Federal NOL carryforward            | <97,000>  |
| Federal income tax                  | 19,750    |
| Tax preferences and adjustments     | 48,000    |
| Iowa income tax expensed on federal | 2,570     |
| Iowa NOL carryforward               | 147,000   |

For tax year 1988, the following information is available:

|  |             |
|--|-------------|
| Federal taxable income before NOL          | \$<154,000> |
| Federal income tax refund                  | 15,460      |
| Tax preferences and adjustments            | 78,000      |
| Iowa income tax refund reported on federal | 2,570       |

The alternative minimum tax for 1987 before the 1988 net operating loss carryback should be computed as follows:

|   |                  |
|---|------------------|
| Regular Iowa Tax                            | \$182,000        |
| Federal taxable income                      | <9,875           |
| less 50% federal tax                        | >                |
|   | 2,570            |
| add Iowa income tax expensed                | <u>174,695</u>   |
| Iowa taxable income before NOL carryforward | \$174,695        |
| less NOL carryforward                       | <147,000         |
|   | >                |
| Iowa taxable income                         | \$ 27,695        |
| Iowa income tax                             | \$ 1,716         |
| Alternative Minimum Tax                     |                  |
| Iowa taxable income before NOL              | \$174,695        |
| add preferences and adjustments             | 48,000           |
|   | <u>222,695</u>   |
| Total                                       | <147,000         |
| less NOL carryforward*                      | >                |
|   | <u>75,695</u>    |
| Iowa alternative taxable income             | \$ 75,695        |
| less exemption amount                       | <40,000          |
|   | >                |
| Total                                       | <u>\$ 35,695</u> |
| Times 7.2%                                  | 2,570            |
| Less regular tax                            | <1,715           |
|   | >                |
| Alternative minimum tax                     | <u>\$ 855</u>    |

\*Net operating loss carryforwards from tax years beginning before January 1, 1987, are deductible at 100 percent without reduction for items of tax preference or adjustments arising in the tax year.

The alternative minimum tax for 1987 after the 1988 net operating loss carryback should be computed as follows:

|   |               |
|---|---------------|
| Regular Iowa Tax                              |               |
| Federal taxable income                        | \$ 182,000    |
| less 50% federal tax                          | <9,875 >      |
| add Iowa income tax expensed                  | 2,570         |
|   | <hr/>         |
| Iowa taxable income before NOL carryforward   | \$ 174,695    |
| less NOL carryforward                         | <147,000 >    |
|   | <hr/>         |
|   | \$ 27,695     |
| less NOL carryback from 1988 <sup>1</sup>     | <148,840 >    |
|   | <hr/>         |
| NOL carryforward                              | \$ <121,145 > |
|   |               |
| Alternative Minimum Tax                       |               |
| Iowa taxable income before NOL                | \$ 174,695    |
| add preferences and adjustments               | 48,000        |
|   | <hr/>         |
| Total   | \$ 222,695    |
| less NOL carryforward from pre-1987 tax year  | <147,000 >    |
|   | <hr/>         |
| Total   | \$ 75,695     |
| less alternative minimum tax NOL <sup>2</sup> | <68,126 >     |
|   | <hr/>         |
| Total   | \$ 7,569      |
| less exemption                                | <40,000 >     |
|   | <hr/>         |
| Alternative minimum taxable income after NOL  | \$ -0-        |

<sup>1</sup>Computation of 1988 Iowa NOL

|                                    |                                |
|------------------------------------|--------------------------------|
| Federal NOL                        | \$ <154,000<br>>               |
| add 50% of federal refund          | 7,730                          |
| less Iowa refund in federal income | <2,570<br>>                    |
| Iowa NOL                           | <u>\$ &lt;148,840<br/>&gt;</u> |

## <sup>2</sup>Computation of 1988 Alternative Minimum Tax NOL

|   |                               |
|---|-------------------------------|
| Iowa NOL  | \$ <148,840<br>>              |
| add preferences and adjustments   | 78,000                        |
| Total   | <u>\$ &lt;70,840<br/>&gt;</u> |
| NOL carryback limited to 90% of alternative minimum<br>income before NOL and exemption* | \$ <68,126<br>>               |
| Alternative minimum tax NOL carryforward  | <u>\$ 2,705</u>               |

\*For purposes of the alternative minimum tax, net operating loss carryforward or carryback from tax years beginning after December 31, 1986, must be reduced by items of tax preference and adjustments, and are limited to 90 percent of alternative minimum taxable income before deduction of the post-1986 NOL and the \$40,000 exemption amount ( $\$75,695 \times 90\% = \$68,126$ ).

**52.5(3)** Effective for tax years beginning on or after January 1, 1986, estimated payments are required for minimum tax.

**52.5(4)** Alternative minimum tax credit for minimum tax paid in a prior tax year. Minimum tax paid by a taxpayer in prior tax years commencing with tax years beginning on or after January 1, 1987, can be claimed as a tax credit against the taxpayer's regular income tax liability in a subsequent tax year. Therefore, 1988 is the first tax year that the minimum tax credit is available for use and the credit is based on the minimum tax paid by the taxpayer for 1987. The minimum tax credit may only be used against regular income tax for a tax year to the extent that the regular tax is greater than the minimum tax for the tax year. If the minimum tax credit is not used up against the regular tax for a tax year, the remaining credit is carried to the following tax year to be applied against the regular income tax liability for that period.

*a.* Computation of minimum tax credit on Schedule IA 8827. The minimum tax credit is computed on Schedule IA 8827 from information on Schedule IA 4626 for prior tax years, from Form IA 1120 and Schedule IA 4626 for the current year and from Schedule IA 8827 for prior tax years.

*b.* Examples of computation of the minimum tax credit and carryover of the credit.

**EXAMPLE 1.** Taxpayer reported \$5,000 of minimum tax for 2007. For 2008, taxpayer reported regular tax less credits of \$8,000 and the minimum tax liability is \$6,000. The minimum tax credit is \$2,000 for 2008 because, although the taxpayer had an \$8,000 regular tax liability, the credit is allowed only to the extent that the regular tax exceeds the minimum tax. Since only \$2,000 of the carryover credit from 2007 was used, there is a \$2,000 minimum tax carryover credit to 2009.

**EXAMPLE 2.** Taxpayer reported \$2,500 of minimum tax for 2007. For 2008, taxpayer reported regular tax less credits of \$8,000 and the minimum tax liability is \$5,000. The minimum tax credit is

\$2,500 for 2008 because, although the regular tax less credits exceeded the minimum tax by \$3,000, the credit is allowed only to the extent of minimum tax paid for prior tax years. There is no minimum tax carryover credit to 2009.

*c.* Computation of the minimum tax credit attributable to a member leaving an affiliated group filing a consolidated Iowa corporation income tax return. The amount of minimum tax credit available for carryforward attributable to a member of a consolidated Iowa income tax return shall be computed as follows: The consolidated minimum tax credit available for carryforward from each tax year is multiplied by a fraction, the numerator of which is the separate member's tax preferences and adjustments for the tax year and the denominator of which is the total tax preferences and adjustments of all members of the consolidated Iowa income tax return for the tax year.

*d.* Computation of the amount of minimum tax credit which may be used by a new member of a consolidated Iowa corporation income tax return. The amount of minimum tax credit carryforward which may be used by a new member of a consolidated Iowa income tax return is limited to the separate member's contribution to the amount by which the regular income tax less credits set forth in Iowa Code section 422.33 exceeds the tentative minimum tax.

The separate member's contribution to the amount by which the regular income tax less nonrefundable credits exceeds the tentative minimum tax shall be computed as follows:

$$\frac{\left[ \frac{A}{B} \times C + D \right] \times F}{E} = \text{Separate member's contribution to the amount by which regular income tax less credits set forth in section 422.33 exceeds the tentative minimum tax.}$$

A = Separate corporation gross sales within Iowa after elimination of all intercompany transactions.

B = Consolidated gross sales within and without Iowa after elimination of all intercompany transactions.

C = Iowa consolidated income subject to apportionment.

D = Separate corporation income allocable to Iowa.

E = Iowa consolidated income subject to tax.

F = The amount by which the regular income tax less credits set forth in Iowa Code section 422.33 exceeds the tentative minimum tax.

*e.* Minimum tax credit after merger. When two or more corporations merge or consolidate into one corporation, the minimum tax credit of the merged or consolidated corporations is available for use by the survivor of the merger or consolidation.

This rule is intended to implement Iowa Code section 422.33.

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