

701—42.8(422) Alternative minimum tax credit for minimum tax paid in a prior tax year. Minimum tax paid in prior tax years commencing with tax years beginning on or after January 1, 1987, by a taxpayer 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 and the credit is based on the minimum tax paid by the taxpayer for 1987. However, only the portion of the minimum tax which is attributable to those adjustments and tax preferences which are "deferral items" qualifies for the minimum tax credit for tax years beginning before January 1, 1993. "Deferral items" are those tax preferences and adjustments which result in a temporary change in an individual's tax liability. An example of a "deferral item" is the tax preference for accelerated depreciation of real property placed in service before 1987. On the other hand, the portion of the minimum tax which is attributable to the "exclusion item" for appreciated property charitable deduction does not qualify for the minimum tax credit. The appreciated property charitable deduction tax preference is the only state "exclusion item," although there are several "exclusion items" which are used to compute federal minimum tax. For tax years beginning on or after January 1, 1993, the entire amount of minimum tax paid qualifies for the minimum tax credit, and there is no longer any distinction between "deferral items" and "exclusion items" for Iowa minimum tax purposes. 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 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.

42.8(1) Computation of minimum tax credit on Form IA 8801. The minimum tax credit is computed on Form IA 8801 from information on Form IA 6251 for the prior tax year, Form IA 1040 and Form IA 6251 for the current year and from Form IA 8801 for the prior year (applies in 1989 and in subsequent tax years).

Form IA 8801 is in three parts. In the first part, a calculation is made to determine the portion of the minimum tax paid in the prior year, if any, which is attributable to the exclusion item for appreciated property charitable deduction. In the second portion of Form IA 8801, the minimum tax attributable to the appreciated property charitable deduction from Part I is subtracted from the total minimum tax paid for the prior year. The remaining amount of minimum tax is attributable to the deferral tax preference items and adjustment items. This remaining amount, if any, is added to the minimum tax carryover credit from the IA 8801 for the prior tax year, if any. This total is compared to the regular income tax liability less nonrefundable credits, less the tentative minimum tax for the current year and the lesser amount is the allowable minimum tax credit for the current year.

The final part of Form IA 8801 is used to compute the minimum tax credit, if any, which will be carried over to the next tax year. The carryover credit is computed by subtracting the allowable credit for the current tax year from the total of the minimum tax credit attributable to deferral items and the carryover credit from the prior tax year.

42.8(2) Examples of computation of the minimum tax credit and carryover of the credit.

EXAMPLE 1. Taxpayers are married with no dependents and are filing a joint Iowa return for 1989, with a taxable income of \$200,000. In 1988, the taxpayers had a taxable income of \$100,000. They had \$575,000 in tax preference in 1988. They had incentive stock options of \$475,000 and appreciated property charitable deduction of \$100,000. The taxpayers' regular income tax liability in 1988 after personal exemption credits was \$8,608. The taxpayers had a minimum tax carryover credit of \$5,000 from minimum tax paid in 1987 that was not applied against the regular tax liability in 1988. The minimum tax credit for 1989 was computed on Form IA 8801 using data from IA 6251 for 1988, IA 8801 for 1988, IA 6251 for 1989 and IA 1040 for 1989. Selected lines from this form are shown below:

Form IA 8801

Part I. Computation of Minimum Tax on Exclusion Items		
Line 10	- Gross tax on exclusion items.	\$13,313
Line 11	- Less regular income tax minus credits (line 12 IA 6251 - 1988).	8,608
Line 12	- Net minimum tax on exclusion item.	\$ 4,705
Part II. Computation of Allowable Credit for 1989		
Line 13	- Enter amount from line 13 IA 6251 for 1988.	\$42,017
Line 14	- Enter amount from line 12 in Part I.	4,705
Line 15	- Adjusted net minimum tax. Subtract amount on line 14 from amount on line 13.	\$37,312
Line 16	- Enter credit carryforward for 1987.	5,000
Line 17	- Total Add lines 15 and 16.	\$42,312
Line 18	- Enter 1989 regular tax liability minus allowable credits. Line 46 less line 53 of IA 1040.	\$18,588
Line 19	- Enter tentative minimum tax for 1989 from line 13 of IA 6251 for 1989.	0
Line 20	- Subtract line 19 from line 18.	\$18,588
Line 21	- Allowable minimum tax credit for 1989. Enter smaller of line 17 or line 20.	\$18,588
Part III. Computation of Minimum Tax Credit Carryover		
Line 22	- Enter amount from line 17 in Part II.	\$42,312
Line 23	- Enter amount from line 21 in Part II.	18,588
Line 24	- Carryforward of credit to next tax year, subtract line 23 from line 22.	\$23,724

EXAMPLE 2. All of the facts are the same as in Example 1 except that the taxpayers did not have the exclusion preference for appreciated property charitable deduction. Instead, the taxpayer had incentive stock options of \$575,000 as compared to stock options of \$475,000 in the prior example. If there were no exclusion tax preference items, the totals on lines 12 and 14 of IA 8801 would be zero. The total on line 15 would be \$42,017 and the total on line 17 would be \$47,017 (\$42,017 + \$5,000). The allowable minimum tax credit on line 21 would be the same as in Example 1 (\$18,588). The amount on line 22 would be \$47,017 (\$42,017 + \$5,000). The carryover credit is \$28,429 (\$47,017 – \$18,588).

EXAMPLE 3. The taxpayers have a minimum tax credit carryforward from the 1988 tax year of \$5,000. The taxpayers did not have any minimum tax in 1988. For 1989, the taxpayers regular tax less credits is \$3,000 and the minimum tax liability is \$2,000. Selected lines from Form IA 8801 follow, which show the allowable minimum tax credit for the taxpayers:

Line 17	- Total of available minimum tax credit.	\$5,000
Line 18	- 1989 Regular tax liability minus credits.	3,000
Line 19	- Tentative minimum tax liability for 1989.	2,000
Line 20	- Subtract line 19 from line 18.	\$1,000
Line 21	- Allowable minimum tax credit which is the smaller of line 17 or line 20.	\$1,000

The minimum tax credit is \$1,000 because although the taxpayers had a \$3,000 regular tax liability, the credit is allowed only to the extent that the regular tax exceeds the minimum tax. Since only \$1,000 of the carryover credit from 1988 was used, there is a \$4,000 carryover credit to 1990.

42.8(3) Minimum tax credit for nonresidents and part-year residents. Nonresident and part-year resident taxpayers who paid Iowa minimum tax in tax years beginning on or after January 1, 1987, are eligible for the minimum tax credit to the extent that the minimum tax they paid was attributable to tax preferences and adjustments other than the exclusion tax preference for appreciated property charitable deduction. Therefore, if a nonresident or part-year resident taxpayer had Iowa source tax preferences or adjustments, but no Iowa source tax preference for appreciated property charitable deduction, then

all the minimum tax that was paid would qualify for the minimum tax credit. On the other hand, if the only Iowa source tax preference of a nonresident or part-year resident taxpayer was the tax preference for appreciated property charitable deduction, no portion of the minimum tax paid for the tax year would qualify for the minimum tax credit. The following formula can be used to compute the minimum tax credit for a nonresident or part-year resident where a portion of the minimum tax is attributable to the tax preference for appreciated property charitable deduction.

Minimum tax		*Iowa source tax pref.		Minimum
(line 17	×	<u>and adjustments</u>	=	tax credit
IA 6251)		*Total tax preference		line 15
1988		and adjustments		IA 8801

*Excluding amount of tax preference for appreciated charitable deduction

The minimum tax credit for a tax year as computed above applied to the regular income tax liability less credits including the nonresident part-year credit to the extent this regular tax amount exceeds the minimum tax for the tax year. To the extent the credit is not used the credit can be carried over to the next tax year.

This rule is intended to implement Iowa Code section 422.11B.