

701—49.7 (422) Estimated tax carryforwards and how the carryforward amounts are affected under different circumstances. For tax years beginning on or after January 1, 1994, taxpayers that timely file their Iowa returns and have overpayments shown on their returns may elect to have the overpayments credited to their estimated tax payments for the following tax year.

For purposes of this rule, filing a return for a calendar-year period on or before the last day of the year in which the return is due will constitute timely filing of that return for purposes of being eligible to have an overpayment from that return applied to the estimated tax payments for the next tax year. The 1994 Iowa return is due on May 1, 1995, because the regular due date of April 30 falls on Sunday. Therefore, if a taxpayer files the 1994 return on or before December 31, 1995, showing an overpayment on the return, the taxpayer can elect to have the overpayment credited to the taxpayer's estimated tax for the 1995 calendar year.

However, if a taxpayer files the 1994 return anytime after the end of the 1995 calendar year with an overpayment shown on the return, the overpayment will be refunded to the taxpayer notwithstanding that the taxpayer has shown that the overpayment is to be credited to estimated tax for 1995.

EXAMPLE 1. Mark Jones filed his 1994 return on October 31, 1995, showing an overpayment of \$400, and a credit to 1995 estimated tax for \$400. Because the 1994 return was filed on or before December 31, 1995, Mr. Jones' election to credit the \$400 overpayment to 1995 estimated tax was honored.

EXAMPLE 2. Fred Mack filed his 1994 and 1995 Iowa returns in March 1996. The 1994 return showed an overpayment of \$300 and credit to 1995 estimated tax of \$300. The 1995 return showed an overpayment of \$200 which was determined from estimated payments of \$800, including the \$300 credit from the 1994 return. The overpayment from the 1994 return was to be refunded because the taxpayer had filed that return after the deadline for crediting overpayments to estimated payments for 1994 returns. Because the \$300 credit to 1995 estimated tax was not allowed, there was tax due of \$100 on the 1995 return. The tax due for 1995 was satisfied with part of the refund from the 1994 return.

The following subrules show how the amounts of tax carryforwards from overpayments shown on state returns are affected by certain circumstances:

49.7(1) *Estimated tax carryforward and how amount of carryover credit is affected by error on return.* If a state return is filed timely with an overpayment shown on the return and the overpayment is to be credited to the taxpayer's estimated payments for the following year, the amount credited to estimated payments will be affected by an error on the return. Thus, if the error on the return is corrected and results in a smaller overpayment than was shown when the return was filed, the credit to estimated tax from the return will be reduced accordingly.

EXAMPLE. Mike Green filed his 1994 return on March 20, 1995, showing an overpayment of \$400 and a credit to 1995 estimated tax of \$400. During processing of the return, it was determined that the federal income tax refund received was subtracted from net income instead of being added to net income. Correction of this error resulted in an overpayment of \$200 instead of \$400. Thus, the amount credited to the taxpayer's estimated payments for 1995 was \$200 instead of the \$400 shown on the return form. The department notified Mr. Green of the error and advised him that only \$200 was being credited to the taxpayer's estimated tax for 1995 instead of the \$400 shown on the return.

49.7(2) *Estimated tax credit carryover; carryforward amount affected by amended return.* A taxpayer files an original return timely with an overpayment and with the overpayment credited to the following year's estimated tax payments. If the taxpayer files an amended return correcting an error on the original return and with a different amount credited to estimated tax than on the original return, the credit amount from the amended return will be credited to estimated tax, if the amended return is filed on or before the end of the year in which the return is due. Thus, if an amended 1994 return is filed by December 31, 1995, the amount shown as a credit to estimated tax from that amended return will be the amount credited to the taxpayer's 1995 estimated tax, instead of the amount credited from the original 1994 return.

EXAMPLE. Velma Fox filed her original 1994 return on April 15, 1995, with an overpayment of \$500 and all of that overpayment credited to her estimated tax for 1995. Later, in 1995, Ms. Fox determined that she had failed to claim a deduction on the return for depreciation on some business equipment she

acquired in 1994. Therefore, she filed an amended 1994 Iowa return on October 31, 1995, showing an overpayment of \$700 and a credit to 1995 estimated tax of the same amount. Ms. Fox's amended return was filed on or before December 31, 1995, so the \$700 credit to Ms. Fox's 1995 estimated tax from the amended return was allowed.

Note that if the amended return had not been filed until sometime in January 1996, the credit from Ms. Fox's original return would have been applied to Ms. Fox's estimated payments for 1995. Since the amended return would have been filed too late for purposes of crediting the overpayment to the taxpayer's estimated tax for the next year, the department would issue Ms. Fox a refund of \$200 which is the portion of the overpayment from the amended return that had not been credited to estimated tax from the original return for 1994.

49.7(3) *Estimated tax carryforward and how amount of carryover credit is affected by state tax liability or other state liability of the taxpayer.* A taxpayer who files an Iowa return with an overpayment shown on the return and elects to have the overpayment credited to the taxpayer's estimated tax for the next tax year will not have the overpayment credited to estimated tax if the taxpayer has tax liabilities or other liabilities with the state that are subject to setoff. Other liabilities with the state that are subject to setoff are those liabilities described in Iowa Code section 8A.504. These liabilities are for debts owed the state for public assistance overpayments, defaults on guaranteed student or parental college loans, district court debts, delinquent child support, and any other debts of the taxpayer with a board, commission, department, or other administrative office or unit of the state of Iowa.

EXAMPLE 1. Rose Peters filed her 1994 Iowa return in April 1995 showing an overpayment of \$400 and a credit to 1995 estimated tax of \$400. During processing of Rose's 1994 return it was determined that she had a liability of \$150 from her 1993 Iowa return. Thus, \$150 of the 1994 overpayment was offset against the tax liability from the 1993 return. The remaining portion of the 1994 overpayment of \$250 was credited to Ms. Peters' estimated tax for 1995.

EXAMPLE 2. Mike Moore filed his 1994 Iowa return in May 1995 with an overpayment of \$500, a credit to 1995 estimated tax of \$300 and a refund of \$200. Mr. Moore is a "self-employed individual" as that phrase is to be understood for the purposes of Iowa Code section 252B.5, subsection 8, as amended by 2003 Iowa Acts, House File 534, section 220. During processing it was determined that Mr. Moore had a liability for unpaid child support of \$1,000. After Mr. Moore was notified by the child support recovery unit of the department of human services that the overpayment from the 1994 return was going to be applied to the child support liability, the entire overpayment of \$500 was set off against Mr. Moore's liability for unpaid child support. Thus, since the \$300 credit to estimated tax was set off against the delinquent child support, there was no credit to estimated tax for 1995. Responsibility for offsetting this type of obligation remains, as of July 1, 2003, with the department of revenue and has not been transferred to the department of administrative services.

49.7(4) *Accrual of interest on an assessment of additional tax.* If the taxpayer has not elected to have an overpayment credited to an installment other than the first installment, interest shall accrue on an assessment of additional tax as follows: If the overpayment was credited to the first installment, interest on an assessment of additional tax shall accrue from the due date of the return. If the overpayment was credited to an installment due after the overpayment arose, interest shall accrue from the date the return was filed. Interest on that portion of an assessment greater than the overpayment shall accrue from the due date of the return.

If the taxpayer has elected to have an overpayment of estimated tax credited to an installment other than the first installment, interest shall accrue on any assessment of additional tax up to the amount of the overpayment from the date the return was filed with the department. Interest on any assessment of additional tax greater than the amount of the overpayment shall accrue from the due date of the return, *Avon Products, Inc. v. United States*, 588 F.2d 342 (2nd Cir. 1978), Revenue Ruling 84-58.

This rule is intended to implement Iowa Code section 422.16.