

701—403.10(422) Example for tax periods beginning on or after January 1, 2002.

EXAMPLE. The following example is based on the following facts. The taxpayers are a husband and wife who have two dependent children. Their income consists of husband's wages of \$50,000; rental loss (\$5,000); wife's S corporation income of \$500,000; joint interest income of \$35,000. They have Iowa itemized deductions of \$20,000, and an out-of-state tax credit of \$1,150 on the S corporation income. The actual cash distribution from the S corporation was \$289,840, none of which has been previously taxed by Iowa. Federal income tax paid during the year totals \$191,214. The S corporation is a value-added corporation which carries on business within and without Iowa with 10 percent of its sales in Iowa.

a. Computation of tax on a joint return basis.

Wages	\$50,000
S corporation income	500,000
Interest	35,000
Rent	<u>(5,000)</u>
Total income	\$580,000
Less federal tax deduction	<u>(191,214)</u>
Subtotal	\$388,786
Less itemized deductions	<u>(20,000)</u>
Taxable income	\$368,786
Tax	\$31,696
Less personal credits husband & wife & two dependents	<u>(160)</u>
Subtotal	\$31,536
Less out-of-state tax credit	<u>(1,150)</u>
Iowa individual tax	\$30,386
<hr/> Computation of credit	
Total income	\$580,000
Less S corporation income	<u>(500,000)</u>
Subtotal	\$80,000
Add the greater of cash distributions not previously taxed, \$289,840 less 100% of federal taxes on S corporation income of \$164,840 = \$125,000, or income attributable to Iowa sources \$50,000	<u>125,000</u>
Income attributable to Iowa sources	\$205,000
Total income	\$580,000
Taxable percentage	35.3449%
Iowa individual tax before credit	\$31,696
Credit percentage	<u>64.6551%</u>
Subtotal	\$20,493
Less out-of-state tax credit	<u>(1,150)</u>
S corporation tax credit	\$19,343

Computation of 100 percent of federal income tax attributable to S corporation income: $\$191,214 \times \$500,000 / \$580,000 = \$164,840$.

Computation of percent of income attributable to Iowa sources: $100 \times \$205,000 / \$580,000 = 35.3449\%$.

Computation of percent of income attributable to non-Iowa sources: $100 - 35.3449\% = 64.6551\%$.

b. Computation on a separate filing on a combined return basis.

	Spouse	Taxpayer
Wages	\$50,000	-0-
S corporation income	-0-	\$500,000
Interest	17,500	17,500
Rent	<u>(5,000)</u>	<u>-0-</u>
Total income	\$62,500	\$517,500
Less federal tax deduction	<u>(20,613)</u>	<u>(170,601)</u>
Subtotal	\$41,887	\$346,899
Less itemized deductions	<u>(2,156)</u>	<u>(17,844)</u>
Taxable income	\$39,731	\$329,055
Tax	\$2,293	\$28,128
Less personal credits taxpayer & spouse & two dependents	<u>(120)</u>	<u>(40)</u>
Subtotal	\$2,173	\$28,088
Less out-of-state tax credit	<u>(-0-)</u>	<u>(1,150)</u>
Iowa individual tax	\$2,173	\$26,938
<hr/> Computation of credit <hr/>		
Total income	\$517,500	
Less S corporation income	<u>(500,000)</u>	
Subtotal	\$17,500	
Add the greater of cash distributions not previously taxed, \$289,840 less 100% of federal taxes on S corporation income of \$164,840 = \$125,000, or income attributable to Iowa sources \$50,000	<u>125,000</u>	
Income attributable to Iowa sources	\$142,500	
Total income	\$517,500	
Taxable percentage	27.5362%	
Iowa individual tax before credit	\$28,128	
Credit percentage	<u>72.4638%</u>	
Subtotal	\$20,383	
Less out-of-state tax credit	<u>(1,150)</u>	
S corporation tax credit	\$19,233	

Taxpayer's computation of 100 percent of federal income tax attributable to S corporation income:
 $\$170,601 \times \$500,000 / \$517,500 = \$164,832$.

Taxpayer's computation of percent of income attributable to Iowa sources: $100 \times \$142,500 / \$517,500 = 27.5362\%$.

Taxpayer's computation of percent of income attributable to non-Iowa sources: $100 - 27.5362\% = 72.4638\%$.

This rule is intended to implement Iowa Code section 422.8, subsection 2, paragraph "b."
 [ARC 1102C, IAB 10/16/13, effective 11/20/13; Editorial change: IAC Supplement 11/2/22]