

S Corporation Apportionment Tax Credit

Tax Expenditure Committee – November 18, 2015

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Outline

- ▶ Introduce the S Corporation Apportionment (S Corp) Tax Credit
- ▶ Review the treatment of apportionment of pass-through income in other states
- ▶ S Corp claims and claimants

S Corp Tax Credit Overview

- ▶ Effective for tax years beginning on or after January 1, 1996
- ▶ Eligible taxpayer is an Iowa resident who is a shareholder of an S Corporation that conducts business within and without Iowa
- ▶ Nonrefundable with no carryforward and nontransferable
- ▶ Can only be claimed against individual income tax

Apportionment in Iowa

- ▶ C Corporations apportion income to Iowa for tax purposes based on their share of sales within the state
- ▶ Members of pass-through entities like S Corporations or LLCs must report their full share of business income on their IA 1040
- ▶ If income was earned based on business activity outside of Iowa, and if tax was paid to another state, members can claim an Out-of-State Tax Credit

S Corp Tax Credit Purpose

- ▶ Alternatively, shareholders in an S Corporation can apportion income similar to a C Corporation using the S Corp Tax Credit
- ▶ Completing the IA 134, S Corp Tax Credit equals the share of the individual income tax bill attributed to the S Corporation income earned outside of Iowa
- ▶ Taxpayers cannot claim an Out-of-State Tax Credit on any income from the S Corporation if the S Corp Tax Credit is claimed

S Corp Tax vs Out-of-State Tax Credit

- ▶ S Corp Tax Credit may be more beneficial when:
 - Sales occur in states without an income tax
 - Sales occur in states with a lower income burden than Iowa

Apportionment of Pass-Through Income in Other States

- ▶ 12 States responded to requests for information on how they apportion income from pass-through entities
- ▶ Based on these responses:
 - None of the states offer a similar tax credit
 - Many states calculate apportionment using a single sales factor (a few use 3 factor apportionment)
 - Most states treat C corps and pass-through entities the same
 - Many states use an out-of-state tax credit as an alternative tax treatment

S Corp Tax Credit Claims

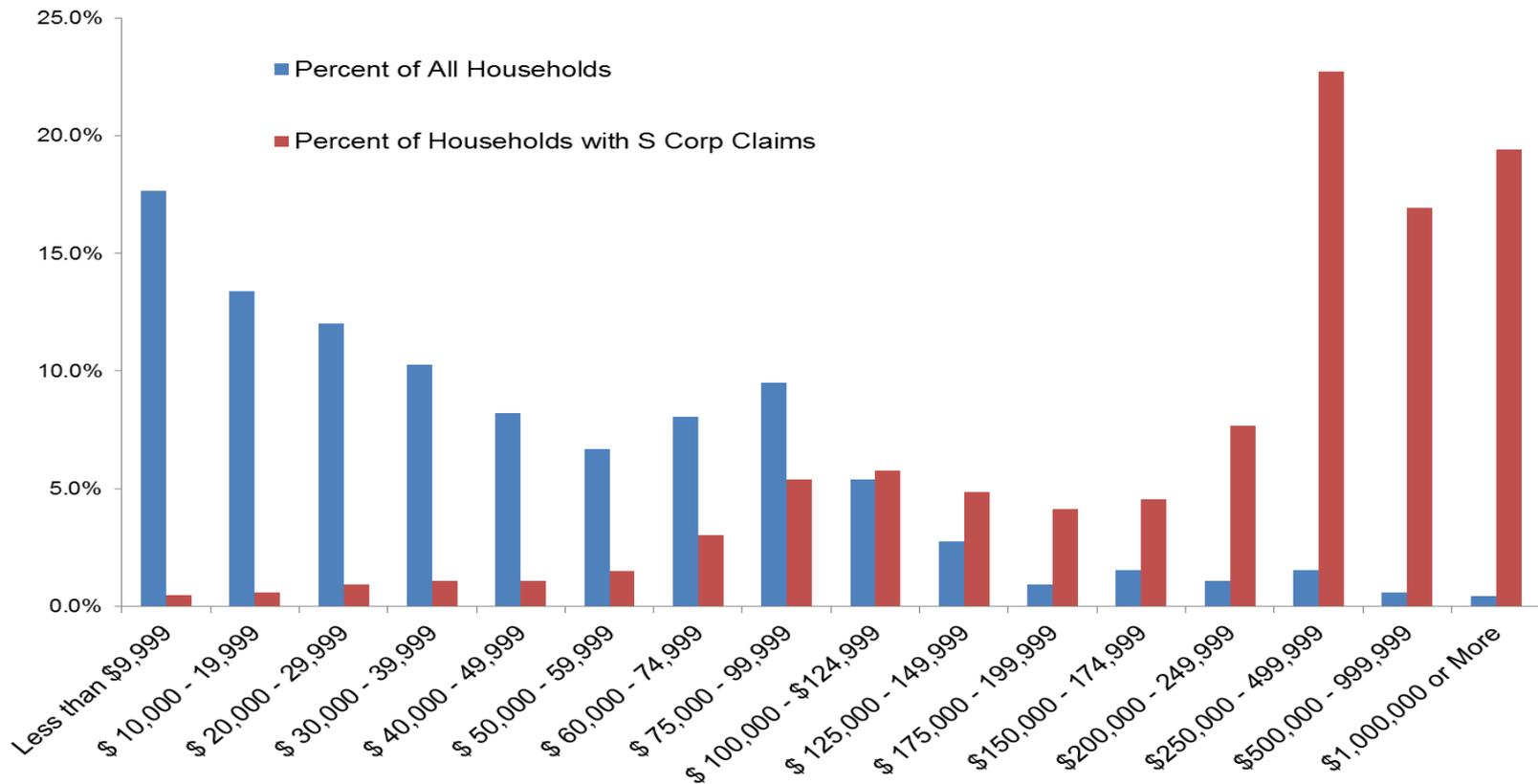
Tax Year	Number of Claims	Total S Corporation Apportionment Tax Credit Available	Total S Corporation Apportionment Tax Credit Claimed	Average Tax Credit Claim	Percent of Available Tax Credits Claimed
2006	2,263	\$48,929,077	\$48,842,238	\$21,583	99.82%
2007	2,425	\$39,589,782	\$39,279,064	\$16,198	99.22%
2008	2,503	\$41,794,941	\$41,375,747	\$16,530	99.00%
2009	2,263	\$33,250,052	\$32,239,585	\$14,246	96.96%
2010	2,525	\$40,341,370	\$39,987,032	\$15,836	99.12%
2011	2,562	\$45,435,553	\$45,293,575	\$17,679	99.69%
2012	2,590	\$60,188,696	\$59,635,251	\$23,025	99.08%
2013*	2,541	\$34,785,987	\$34,830,525	\$13,707	100.13%
2014*	2,341	\$38,344,723	\$37,998,465	\$16,232	99.10%
Total	22,013	\$382,660,181	\$379,481,482		
Average	2,446	\$42,517,798	\$42,164,609	\$17,239	99.17%

*Tax year incomplete

2013 shows a claim rate above 100% because of an incorrect claim that is currently in billing

Source: Iowa Department of Revenue IA 148 Tax Credits Schedule

Household AGI Distribution for all Taxpayers vs S Corp Claimants



Source: Iowa Department of Revenue

Questions?