

422.8 Allocation of income earned in Iowa and other states.

Under rules prescribed by the director, net income of individuals, estates, and trusts shall be allocated as follows:

1. *a.* The amount of income tax paid to another state or foreign country by a resident taxpayer of this state on income derived from sources outside of Iowa shall be allowed as a credit against the tax computed under [this chapter](#), except that the credit shall not exceed what the amount of the Iowa tax would have been on the same income which was taxed by the other state or foreign country. The limitation on this credit shall be computed according to the following formula: Income earned outside of Iowa and taxed by another state or foreign country shall be divided by the total income of the resident taxpayer of Iowa. This quotient multiplied by the net Iowa tax as determined on the total income of the taxpayer as if entirely earned in Iowa shall be the maximum tax credit against the Iowa net tax.

b. (1) For purposes of paragraph “*a*”, a resident partner of an entity taxed as a partnership for federal tax purposes, a resident shareholder of an S corporation, or a resident beneficiary of an estate or trust shall be deemed to have paid the resident partner’s, resident shareholder’s, or resident beneficiary’s pro rata share of entity-level income tax paid by the partnership, S corporation, estate, or trust to another state or foreign country on income that is also subject to tax under this subchapter, but only if the entity provides the resident partner, resident shareholder, or resident beneficiary a statement that documents the resident partner’s, resident shareholder’s, or resident beneficiary’s share of the income derived in the other state or foreign country, the income tax liability of the entity in that state or foreign country, and the income tax paid by the entity to that state or foreign country.

(2) For purposes of paragraph “*a*”, a resident shareholder of a regulated investment company shall be deemed to have paid the shareholder’s pro rata share of entity-level income tax paid by the regulated investment company to another state or foreign country and treated as paid by its shareholders pursuant to section 853 of the Internal Revenue Code, but only if the regulated investment company provides the resident shareholder a statement that documents the resident shareholder’s share of the income derived in the other state or foreign country, the income tax liability of the regulated investment company in that state or foreign country, and the income tax paid by the regulated investment company to that state or foreign country.

2. *a.* Nonresident’s net income allocated to Iowa is the net income, or portion of net income, which is derived from a business, trade, profession, or occupation carried on within this state or income from any property, trust, estate, or other source within Iowa. However, income derived from a business, trade, profession, or occupation carried on within this state and income from any property, trust, estate, or other source within Iowa shall not include distributions from pensions, including defined benefit or defined contribution plans, annuities, individual retirement accounts, and deferred compensation plans or any earnings attributable thereto so long as the distribution is directly related to an individual’s documented retirement and received while the individual is a nonresident of this state. If a business, trade, profession, or occupation is carried on partly within and partly without the state, only the portion of the net income which is fairly and equitably attributable to that part of the business, trade, profession, or occupation carried on within the state is allocated to Iowa for purposes of [section 422.5, subsection 1](#), paragraph “*b*”, and [section 422.13](#) and income from any property, trust, estate, or other source partly within and partly without the state is allocated to Iowa in the same manner, except that annuities, interest on bank deposits and interest-bearing obligations, and dividends are allocated to Iowa only to the extent to which they are derived from a business, trade, profession, or occupation carried on within the state. Net income described in [section 29C.24, subsection 3](#), paragraph “*a*”, subparagraph (3), and paragraph “*b*”, subparagraph (2), shall not be allocated and apportioned to the state, as provided in [section 29C.24](#).

b. A resident’s income, or the income of an estate or trust with a situs in Iowa, allocable to Iowa is the income determined under [section 422.7](#) reduced by items of income and expenses from an S corporation that carries on business within and without the state when those items of income and expenses pass directly to the shareholders under provisions of the Internal

Revenue Code. These items of income and expenses are increased by the greater of the following:

(1) The net income or loss of the corporation which is fairly and equitably attributable to this state under [section 422.33, subsections 2 and 3](#).

(2) Any cash or the value of property distributions which are made only to the extent that they are paid from income upon which Iowa income tax has not been paid, as determined under rules of the director, reduced by the amount of any of these distributions that are made to enable the shareholder to pay federal income tax on items of income, loss, and expenses from the corporation.

3. Taxable income of resident and nonresident estates and trusts shall be allocated in the same manner as individuals.

4. *a.* The director may, in accordance with the provisions of [this subsection](#), and when cost-efficient, administratively feasible, and of mutual benefit to both states, enter into reciprocal agreements with tax administration agencies of other states to further tax administration and eliminate duplicate withholding by exempting from Iowa taxation income earned from personal services in Iowa by residents of another state, if the other state provides a tax exemption for the same type of income earned from personal services by Iowa residents in the other state. For purposes of [this subsection](#), “*income earned from personal services*” means wages, salaries, commissions, and tips, and earned income from other sources. [This subsection](#) does not authorize the department to withhold taxes on deferred compensation payments, pension distributions, and annuity payments when paid to a nonresident of the state of Iowa. All the terms of the agreements shall be described in the rules adopted by the department.

b. A reciprocal agreement entered into on or after April 4, 2002, with a tax administration agency of another state shall not take effect until such agreement has been authorized by a constitutional majority of each house of the general assembly and approved by the governor. A reciprocal agreement in effect on or after January 1, 2002, shall not be terminated by the state of Iowa unless the termination has been authorized by a constitutional majority of each house of the general assembly and approved by the governor. An amendment to an existing reciprocal agreement does not constitute a new agreement.

5. If the resident or part-year resident is a shareholder of an S corporation which has in effect an election under subchapter S of the Internal Revenue Code, [subsections 1 and 3](#) do not apply to any income taxes paid to another state or foreign country on the income from the corporation which has in effect an election under subchapter S of the Internal Revenue Code.

[C35, §6943-f8; C39, §**6943.037, 6943.040, 6943.050**; C46, 50, 54, 58, §422.5, 422.8, 422.18; C62, 66, 71, 73, 75, 77, 79, 81, §422.5, 422.8; [82 Acts, ch 1226, §3, 6](#)]

[83 Acts, ch 16, §1, 2](#); [85 Acts, ch 243, §3](#); [88 Acts, ch 1028, §16](#); [92 Acts, ch 1224, §1, 2, 4](#); [94 Acts, ch 1149, §1, 2](#); [96 Acts, ch 1197, §16 – 18](#); [97 Acts, ch 111, §5, 6, 8](#); [2002 Acts, ch 1005, §10, 11](#); [2002 Acts, ch 1069, §5, 12, 14](#); [2009 Acts, ch 133, §242](#); [2011 Acts, ch 25, §143](#); [2013 Acts, ch 140, §121, 123, 124](#); [2016 Acts, ch 1095, §3, 14, 15](#); [2018 Acts, ch 1161, §77, 97, 98, 119, 133, 134](#); [2020 Acts, ch 1062, §94](#); [2020 Acts, ch 1118, §115 – 117](#); [2021 Acts, ch 177, §1](#)

Referred to in [§2.48, 29C.24, 260E.2, 422.5, 422.12B, 422.13, 422.16, 422.25A](#)

2020 amendment to subsection 1 applies retroactively to January 1, 2020, for tax years beginning on or after that date; [2020 Acts, ch 1118, §117](#)

2018 strike of former subsection 4 takes effect January 1, 2023, and applies to tax years beginning on or after that date; [2018 Acts, ch 1161, §134](#); [2021 Acts, ch 177, §1](#)

Subsection 4 stricken and former subsections 5 and 6 renumbered as 4 and 5