

701—505.5(422) Penalties. Failure to file and underpayment of estimated tax.**505.5(1) Underpayment penalty.**

a. A penalty is imposed for underpayment of the estimated tax by the taxpayer. This underpayment penalty is imposed whether or not there was reasonable cause for the underpayment. The Iowa penalty for underpayment of estimated tax is computed on Form IA 2220.

b. The amount of the underpayment penalty is determined at the statutory rate upon the amount of underpayment of the estimated tax for the period from the date the amount is required to be paid until the last day of the fourth month following the close of the income year, or the date the underpayment is paid, whichever is earlier.

EXAMPLE. A calendar year corporation is required to make four equal estimated payments of \$2,500 in the current year to meet the exception to the underpayment of estimated tax penalty. The corporation does not make a first quarter estimated payment which was due on April 30, but makes an estimated payment of \$5,000 for the second quarter on June 30. The corporation is subject to the underpayment of estimated tax penalty for the period from April 30 to June 30, when the underpayment was paid.

505.5(2) Exception to imposition of the underpayment penalty.

a. In general. The underpayment penalty will not be imposed for any underpayment if, on or before the date prescribed for payment, the total amount of all payments made of the estimated tax equals or exceeds the amount which would have been required to be paid on or before such date if the estimated tax were the least of the following amounts:

(1) The tax shown on the return for the preceding taxable year, provided that the preceding taxable year was a taxable year of 12 months and a return showing a tax liability was filed for such year;

(2) An amount equal to a tax determined on the basis of the tax rates for the taxable year but otherwise on the basis of the facts shown on the return for the preceding taxable year if the taxable year was a taxable year of 12 months or, if the preceding taxable year was a taxable year of less than 12 months, then by placing the income on an annual basis and the law applicable to the preceding year, in the case of a taxpayer required to file a return for the preceding taxable year; or

(3) For tax years beginning prior to January 1, 2012, an amount equal to 90 percent of the tax determined by placing on an annual basis the net income for the first 3, 5, 6, 8, 9, or 11 months of the taxable year, whichever is applicable. For tax years beginning on or after January 1, 2012, an amount equal to 100 percent of the tax determined by placing on an annual basis the net income for the first 3, 5, 6, 8, 9, or 11 months of the taxable year, whichever is applicable. The net income so determined shall be placed on an annual basis by multiplying it by 12, and dividing the resulting amount by the number of months in the taxable year for which the net income was so determined.

b. Statement of exception. If there has been an underpayment of the amount of the estimated tax, and the taxpayer believes that one or more of the exceptions to the penalty precludes the assertion of the underpayment penalty, the taxpayer should attach a statement showing the applicability of any exception upon which the taxpayer relies.

This rule is intended to implement Iowa Code section 422.88 and 2011 Iowa Code Supplement section 422.89 as amended by 2012 Iowa Acts, Senate File 2328.

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