

# 2016 Iowa Corporation Income Tax Instructions

## To obtain copies of schedules and forms:

Additional information can be found on the [Department website \(https://tax.iowa.gov\)](https://tax.iowa.gov).

Email: [idr@iowa.gov](mailto:idr@iowa.gov)

## Questions:

515-281-3114 or 1-800-367-3388

Hours: 8 a.m. – 4:15 p.m. CT, Monday – Friday

## eFile or mail your return to:

Corporation Tax Return Processing  
Iowa Department of Revenue  
PO Box 10468  
Des Moines, IA 50306-0468

## New Legislation

An out-of-state business that performs disaster and emergency-related work, which includes fixing or building critical infrastructure that has been damaged or destroyed by the declared state disaster or emergency, that relates to a state-declared or presidential-declared disaster is exempt from corporate income tax.

## Internal Revenue Code (IRC) Changes

At the time of publication, Iowa has not adopted any federal Internal Revenue Code changes regarding the determination of income that occurred after January 1, 2014.

## Net Operating Loss Carryback

For tax years beginning on or after January 1, 2009, corporations are no longer allowed to carry back Iowa net operating losses. All net operating losses are allowed to be carried forward for 20 tax years. However, any federal refund due to the carryback of a federal net operating loss must still be reported as income on the Iowa return to the extent a deduction for federal taxes was allowed on prior Iowa returns.

## Capital Loss Carryback

Corporations may still carry back a capital loss to the three preceding tax years. Refund requests for a capital loss carryback must be made on form IA 1139-CAP.

## IA 148 Tax Credits Schedule

The IA 148 Tax Credits Schedule must be completed for any tax credits claimed other than the fuel tax credit on Schedule C1.

## Other Forms

The **IA 1120X** must be used to change a previously filed IA 1120 unless the change was due only to a capital loss carryback.

## Auxiliary Schedules

**Form IA 4562B** Iowa Depreciation Accumulated Adjustment Schedule must be completed to record the cumulative effect of the depreciation adjustment and must be included with the return.

**Schedules F and G** must be completed when net operating losses are being carried forward.

**Schedule H** must be completed by corporations with filing status 2 or 3 to document the computation of any federal tax deduction and/or refunds included in the Iowa return.

**Schedules I, J, and L** must be used by corporations with filing status 3 to document information included in the Iowa return.

## General Instructions

### Which Return to File

- **Regular Corporations:** Every corporation doing business in this state or deriving income from sources within this state, unless exempt by Iowa Code section 422.34, must file an Iowa corporation income tax return, IA 1120.
- **FSCs:** Foreign sales corporations domiciled or incorporated in Iowa must file an IA 1120S if any income or loss is reportable to Iowa.
- **S Corporations, IC-DISCs:** S corporations and Interest Charge Domestic International Sales Corporations must file an Iowa Income Tax Return for an S Corporation, IA 1120S.
- **Limited Liability Companies (LLCs):** Limited liability companies that are taxed as corporations for federal purposes must file the IA 1120. All other limited liability companies must file form IA 1065, Partnership Return of Income. Single member LLCs do not need to file an IA 1065. They must include their business income from federal Schedule C on their individual tax returns or on the corporation income tax return of the owner.
- **Financial Institutions:** Every bank, savings and loan association, and other financial institution as defined in Iowa Code section 422.61 doing business in this state as a financial institution must file an Iowa Franchise Tax Return, IA 1120F.

### When to File

- **Calendar Year:** Return is due no later than May 1, 2017.
- **Fiscal Year:** Return is due within four months after the end of the fiscal year.
- **Cooperative:** Cooperative associations as defined in IRC section 6072(d) have until the 15th day of the 9th month after the close of their period to file a return.
- **Short Year:** If a corporation is required to file a short period return under the Internal Revenue Code then the Iowa short period return is due 45 days after the original federal due date.

- **UBIT (Nonprofit Corporation):** A nonprofit corporation reporting unrelated business income on federal form 990-T must file an IA 1120 on or before the 15th day of the 5th month following the end of the tax period. If the nonprofit corporation has no unrelated business income, even if filing a form 990-T to claim the small business health care tax credit, no Iowa return or copy of the federal return is required to be filed.

### Automatic Extension of Time to File

All taxpayers who have paid 90% or more of their correct tax on or before the original due date of their return automatically have an additional six months in which to file their return and pay any additional tax due with no penalty. Taxpayers who have not paid 90% or more of their correct tax on or before the original due date of their corporation income tax return are not allowed the six-month additional period of time to file and owe both penalty and interest on the additional tax due after the original due date of their return. If an additional payment is necessary in order to meet the 90% requirement, it must be made by the original due date of the return. The automatic extension does not change the due date of the return; it only extends the time to file the return.

Such payments can be made electronically on eFile & Pay or by using form 42-019, Iowa Corporation Tax Payment Voucher.

Interest will accrue on any tax due after the original due date of the return. All elections made on a return filed within six months of the original due date will be considered timely.

## IA 1120 Instructions

All corporations filing a return with the Department must complete all lines on the front page for the return to be accepted. "See schedule included" is not acceptable; the return will be considered incomplete and may be returned.

### Step 1 - Taxpayer Information

#### Tax Period

Enter dates as MMDDYY.

#### Name/Address

If name and address is different from your prior period return and you have not previously notified the department of the change, please check the name/address change box. Include name of contact person and phone number.

#### Short Period

If the current filing is for less than 12 months, please check the short period box.

#### Federal Employer Identification Number (FEIN)

This is the corporation's Federal Employer Identification Number.

#### Business Code

Enter the business code from the list provided by the IRS for the specific industry group corresponding to the corporation's primary business activity.

#### County Number

Enter the number of the Iowa county, which can be found on the Department's website, that is the corporation's commercial domicile or principal place of business. Enter 00 if the commercial domicile or principal place of business is not located in Iowa.

#### First/Final Return

If this is a first or final return, please check the box that best describes the reason.

### Step 2 - Filing Status

#### Filing Status/Type of Return

Mark the appropriate box for filing status and return type.

#### Inactive Return

Mark the appropriate box if the corporation has no business operations in any state.

#### Federal Changes

Mark the appropriate box. If yes, provide the tax periods changed and file an IA 1120X for each

period, if not already filed. Checking the box is not sufficient notice to inform the Department that federal changes have occurred.

#### Property in Iowa

Mark the appropriate box. Property is defined as any tangible or real property owned or leased with its primary location in Iowa.

### Step 3 - Net Income and Additions to Income

**Line 1:** Net Income - Enter the amount of federal taxable income computed after federal dividend deduction and before federal net operating loss deduction.

**Line 2:** Federal Refund - Enter 50% of any federal refunds received in or accrued to this tax period. Check the appropriate box to indicate the basis of this refund computation. See step 4, line 5 for additional instructions.

**Line 3:** Other Additions - Enter the total from line 16 of Iowa Schedule A, page 2 of IA 1120 return.

### Step 4 - Reductions to Income

**Line 5:** Federal Tax Paid or Accrued - Enter 50% of federal income taxes paid or accrued. The deduction must be computed using one of the following methods:

**Accrual Basis:** Taxpayers must determine the total tax shown on page 1 of federal form 1120 and multiply by 50%. (Total tax, page 1 x 50% = federal tax deduction)

**Cash Basis:** Taxpayers must compute the sum of federal taxes paid in the tax year and fuel tax credits applied against the tax liability in the tax year. Multiply the resulting amount by 50%.

**Consolidated Federal Return:** If the company is a member of an affiliated group that files a consolidated federal return but the company files a separate Iowa corporation tax return, or the Iowa consolidated return contains different members than the federal consolidated return, the federal income tax deduction using the formula on Schedule H must be computed.

Check the appropriate box to indicate the basis of this federal tax deduction computation. If filing status 2 or 3, include pages 1-5 of the consolidated federal return, consolidating income statements, and complete the Iowa Schedule H. All lines on Schedule H must be completed.

**Line 6:** Other Reductions - Enter the total from line 16 of Iowa Schedule A, page 2 of IA 1120 return.

### Step 5 - Taxable Income

**Line 11:** Iowa Percentage - Enter the amount from line 13 of Iowa Schedule E, page 3, or 100%, if the corporation's business is entirely within Iowa.

**Line 15:** Net Operating Loss - Enter amount from Iowa Schedule F, column E. A copy of Schedule F must be included with the return.

### Step 6 - Tax, Credits, & Payments

**Line 17:** Tax - Enter the amount of tax computed from the tax rate schedule, page 3 of the Iowa tax return. If the corporation has annualized for federal income tax purposes, the corporation must annualize for Iowa income tax purposes. If tax is annualized, check the box and include a schedule of the formula used to compute the tax.

**Line 18:** Alternative Minimum Tax - A small business corporation or a new corporation for its first year of existence, which under IRC section 55(e) is exempt from the federal alternative minimum tax, is not subject to Iowa alternative minimum tax. A small business corporation may apply any alternative minimum tax credit carryforward to the extent of its regular corporation income tax liability.

Enter the amount from line 18 of Schedule IA 4626, page 4. Complete IA 4626 even if no alternative minimum tax is due or include federal form 4626. Check the box if claiming a small business exemption.

### Step 7 - Balance Due

**Line 25:** Penalty for Underpayment of Estimated Tax - Corporations underpaying estimated tax for the entire tax shown on line 19 may be subject to a penalty for this underpayment. The underpayment penalty is in addition to the penalties on line 26 of page 1. The underpayment penalty is computed on form IA 2220 and the total from that form is placed on line 25, page 1. If the penalty is computed, the IA 2220 form must be included with the return. First return taxpayers are subject to this penalty.

**Line 26:** Failure to Timely File a Return - A penalty of 10% will be added to the tax due for failure to timely file a return if the return is filed

after the original due date of the return and if at least 90% of the correct amount of tax is not paid by the original due date of the return.

**Failure to Timely Pay the Tax Due or Penalty for Audit Deficiency** A penalty of 5% will be added to the tax due if the return is filed by the original due date and at least 90% of the correct amount of tax is not paid by the original due date of the return.

When the failure to file penalty and the failure to pay penalty are both applicable, only the failure to file penalty will apply. Penalties can only be waived under limited circumstances.

**Penalty for Willful Failure to File** A penalty of 75% will be added to the tax due for willful failure to file a return or for filing with intent to evade tax.

**Note:** Penalties can only be waived under limited circumstances, as described in Iowa Code section 421.27.

**Line 27:** Interest - If payment is received after the due date of the return, interest accrues on the unpaid tax at a rate prescribed by law from the original due date of the return until payment is received. Any portion of a month is considered a full month in calculating interest due on unpaid tax.

**Line 28:** Total Amount Due - Payment options include payment through Modernized eFile (MeF), ePay (direct debit), ACH Credit or payment by check. Go to the Department's website for electronic payment options. Do not send cash. Submit form IA 1120V if making payment by check. Make check payable to "Treasurer, State of Iowa".

### Step 8 - Overpayment

**Line 29:** Overpayment - Underpayment penalty may be applicable. Subtract any 2220 penalty on line 25; then enter remaining overpayment.

**Line 30:** Credit to Next Period's Estimated Tax - Enter the amount of overpayment to be credited to the next tax period. This credit can only be changed after the due date if the change is requested by the last day of the subsequent year.

## **Schedule A - Other Additions:**

**Line 1:** Enter the amount of IRC section 613 percentage depletion of an oil, gas, or geothermal well that exceeds the cost depletion amount determined under IRC section 611 as claimed on the federal return.

**Line 3:** Enter any net capital loss included in the computation of line 1 of the Iowa return.

**Line 4:** Enter any net contributions deducted in excess of the federal limitation.

**Lines 5-7:** Enter deductions relating to sale-leaseback safe harbor leases for property placed into service prior to January 1, 1986. This includes interest expense and depreciation expense for the lessor and rent expense for the lessee.

**Line 8:** Depreciation Adjustment - Depreciation allowed on the Iowa return may differ from amounts allowed on the federal return. Please refer to the IA 4562A and IA 4562B.

**Line 9:** Enter the amount of interest and dividends exempt from federal tax. Exclude interest received from certain Iowa bonds, which are listed in Iowa Rule 40.3. If municipal interest taxable for Iowa differs from total municipal interest reported on the federal return, a schedule must be included.

**Line 10:** Enter the amount of Iowa tax expensed on the federal return. Provide a breakdown of line 17, taxes and licenses, shown on the federal return.

**Line 15:** Enter any amounts not specifically identified above. A detailed schedule must be included or these amounts may not be allowed. If adjusting an amount from a partnership or LLC, include a reconciliation of federal income to income reported on the Iowa partnership return. The difference must be specifically identified to indicate the Iowa adjustment being made.

## **Schedule A - Other Reductions:**

**Line 2:** Enter the amount of Social Security taxes for tips not subtracted from federal taxable income due to the tip credit, federal form 8846.

**Line 3:** Enter any net capital loss previously not allowed as an Iowa deduction that was not taken at the federal level.

**Line 4:** Enter any net contributions previously not allowed as an Iowa deduction that was not taken at the federal level.

**Lines 5-7:** Enter income amounts related to

sale-leaseback safe harbor leases for property. This includes rent income for the lessor and interest income and depreciation expense for the lessee.

**Line 8:** Depreciation Adjustment - Depreciation allowed on the Iowa return may differ from amounts allowed on the federal return. Please refer to the IA 4562A and IA 4562B.

**Line 10:** Enter the amount of Iowa tax refund included in federal income. Do not include Iowa tax refunds from Iowa refundable tax credits.

**Line 11:** Enter the amount of wages not subtracted from federal taxable income due to the Work Opportunity Credit, federal form 5884.

**Line 12:** Enter the amount added to federal taxable income due to the Alcohol and Cellulosic Biofuel Tax Credit, federal form 6478.

**Line 13:** Foreign dividend income exclusion: Complete Schedule B.

The foreign dividend exclusion, including subpart F income, follows the same criteria as IRC section 243 does for domestic dividends.

- If the percentage of ownership is less than 20%, then 70% of the dividend income is excluded.
- If the percentage of ownership is equal to or greater than 20%, but less than 80%, then 80% of the foreign dividend income is excluded.
- If the percentage of ownership is 80% or greater, then 100% of the foreign dividend income is excluded.
- Foreign dividend gross-up is excluded at 100%.

These amounts are shown on federal form 1120 Schedule C, lines 13 - 15.

**Line 14:** Enter the amount of interest and dividends from federal securities included in federal income. Do not include interest on federal refunds. Include a schedule showing a breakdown of federal security interest by payer.

**Line 15:** Enter any amounts not specifically identified above. A detailed schedule must be included or these amounts may not be allowed. If adjusting an amount from a partnership or LLC, include a reconciliation of federal income to income reported on the Iowa partnership return. The difference must be specifically identified to indicate the Iowa adjustment being made.

## **Schedule B - Foreign Dividend Exclusion**

See instructions for line 13, Schedule A.

## **Schedule C1 - Credits**

Enter all applicable amounts on the lines specified. Include fuel credit, nonrefundable credits, and other refundable credits. Include schedule IA 4136 and schedule IA 148.

## **Schedule C2 - Payments**

Enter all applicable amounts on the lines specified.

**Note:** Ensure to correctly distinguish between credits and payments. For example, credit from prior period overpayment must be listed as a payment on Schedule C2.

## **Additional Information**

Complete all applicable statements and questions.

Enter the FEIN or PTIN for the preparer's identification.

## **Schedule E - Business Activity Ratio**

If all corporate business is conducted within Iowa, do not complete Schedule E.

Complete all applicable lines. All figures are net of amounts used in Iowa Schedule D. Dividends are net of special deductions and the Iowa foreign dividend exclusion.

Business income means income which arises from the corporation's unitary trade or business, a part of which is conducted within Iowa. Business income must be apportioned to Iowa by means of the business activity ratio. Investment income may, at the taxpayer's election, be included in the computation of the business activity ratio. On the return, the taxpayer elects whether to include investment income which was determined to be business income in the computation of its business activity ratio for that and all subsequent years. Consequently, the subsequent year's total

investment income which is determined to be business income is included in the numerator as follows:

- (1) Accounts receivable interest is to be included in the numerator to the extent allocable to Iowa.
- (2) Other interest, net dividends, capital and ordinary gains, and royalties from intangibles must be included in the numerator if the commercial domicile is in Iowa. See Iowa Admin. Code r. 701—54.2(3) for attributing certain income from intangibles.
- (3) Capital and ordinary gains, rent, and royalties from tangible and real property must be included in the numerator if the property is located in Iowa.

For a corporation first doing business in Iowa, the inclusion of investment income determined to be business income in the business activity ratio of that year's initial return is binding on all subsequent years' returns. The election to include business investment income in the business activity ratio can later be changed only with permission of the Director of the Iowa Department of Revenue.

**Special Apportionment Guidelines:** Some corporations are required to use an alternate calculation of the business activity ratio (i.e. service companies, transportation, broadcasting). See Iowa Code section 422.33.

## **Confidentiality and Fair Information Practices**

**Notice:** Information from this return may be made available to the Internal Revenue Service or to tax officials of another state under a tax information exchange program. Except as allowed by law, information on this return cannot be released to anyone who is not an Iowa Department of Revenue or Internal Revenue Service employee. Any Department of Revenue employee who discloses tax information without legal authority is subject to a fine of \$1,000.