

2018 Iowa Fiduciary Instructions (IA 1041)

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Which Return to File

An Iowa fiduciary return must be filed for estates, trusts, and other entities that are taxed as trusts for federal income tax purposes.

An Iowa individual income tax return must be filed for:

- The decedent, if the income during the tax period ending with the date of death meets the Iowa resident or nonresident filing requirements. This return must be prepared with the same method of accounting last used by the decedent.
- Wards in guardianships or conservatorships.
- Resident and nonresident beneficiaries of estates or trusts, if the minimum filing requirements are met.

Required Documents to be Filed with the IA 1041 Iowa Fiduciary Return

- A copy of the federal fiduciary 1041 return and appropriate schedules must accompany each Iowa fiduciary return filed.
- A copy of the decedent's will must accompany the initial fiduciary return if the Department has not previously received a copy for inheritance tax purposes.
- A copy of inter vivos trust instruments must be filed with the initial return for the trust.
- If the will has been filed in Iowa probate proceedings, then this instrument is not required to be filed with the initial return of testamentary trusts.
- If the probate inventory has not been filed in Iowa probate proceedings at the time the initial fiduciary return is filed, a statement should accompany the return advising when the inventory will be filed.
- A probate inventory for a foreign estate should be filed with the return if an ancillary administration has not been opened in Iowa.

Is Income Tax Certificate of Acquittance Requested?

The "Yes" box after this question must be checked when requesting an income tax certificate of acquittance. Only final returns are eligible to receive an acquittance. The Department will not issue an acquittance for a grantor trust under any circumstances.

Furthermore, on a final return for an estate the appropriate box must be checked to indicate whether or not an IA 706 will be filed. If no IA 706 will be filed, submit a copy of the probate inventory or a listing of assets to expedite processing.

Preparer's ID Number

Enter the preparer's Social Security Number (SSN), Federal Employer Identification Number (FEIN), or Preparer Tax Identification Number (PTIN).

When to File

The return with payment is due within four calendar months after the end of the tax year. A fiduciary return must be filed for every accounting period in which there is taxable income of \$600 or more and for the final accounting period regardless of income.

Where to File

The Iowa Department of Revenue is now accepting Iowa Fiduciary Tax Returns (IA 1041) through **Modernized e-File (MeF)**. Mail paper returns to: Fiduciary Return Processing, Iowa Department of Revenue, PO Box 10467, Des Moines, Iowa 50306-0467.

Penalty

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

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.

When the failure to file penalty and the failure to pay penalty are both applicable, only the failure to file penalty will apply.

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.

Federal Tax Audits

The Department has six months to make a determination of the correct tax owed after receipt of sufficient written notice of the final disposition of any matter between the taxpayer and the Internal Revenue Service. A copy of the federal document showing the final disposition of federal adjustments must be included with the notice in order to begin the six-month period.

A sufficient notice to the Department must be in writing, supplied under separate cover, not as a part of the return for the current period, and have the federal document previously mentioned included.

Distributions

A distribution of property-in-kind to a beneficiary entitled to the income made after June 1, 1984, in taxable years ending after that date is subject to an election by the fiduciary to recognize any gain or loss in the estate or trust. The election is an affirmative act and failure to indicate whether or not the election is made will be construed as an election by the fiduciary not to recognize any gain or loss on the distribution. The election applies to all distributions made during the taxable year.

Return Instructions

The following instructions are for completing the Iowa fiduciary return. Detailed instructions are provided for lines requiring special attention. For tax year 2018, Iowa generally conforms with the Internal Revenue Code (IRC) in effect on January 1, 2015. This means that, with a few limited exceptions, Iowa has not conformed with the changes to the IRC made since January 1, 2015, so Iowa adjustments may be necessary. See the IA 4562A & B, the IA 8824 worksheet, and the 2018 nonconformity adjustments worksheet for more information.

Return Identification

Enter the beginning and ending dates if the return is for a fiscal year. Also enter the FEIN and the decedent's SSN if applicable.

Income (Lines 1-9)

All income from the probate property owned by the decedent must be reported until the property is sold or distributed, or disposition of the property is made. Income derived from probate property should also be reported if the income

is deposited in an estate bank account and expenses relating to the probate property are paid from estate funds and controlled by the fiduciary. The income derived from non-probate property must be reported on the beneficiaries' individual income tax returns.

Line 1: Taxable Interest Income. Although exempt from federal tax, interest on state and municipal securities is taxable to Iowa. Exceptions are located in Iowa Administrative Code rule 701—89.8(7)"e"(422) and Iowa Administrative Code rule 701—40.3(422).

Line 6: Net Gain (Loss) From Capital Assets. Report 100% of the net gain or loss from transactions reported on Schedule D, federal form 1041. Iowa follows the federal loss guidelines.

Deductions (Lines 10-22)

Schedule D, side 2, must be completed to itemize interest expenses, taxes, and other allowable deductions.

Lines 12 – 15: For tax years ending prior to July 1, 2015, amounts deducted on the IA 1041 cannot exceed the amounts deducted on the federal 1041.

Line 19: Distributions to Beneficiaries. All income for the final accounting period of an estate or trust must be distributed to the beneficiaries. The estate or trust cannot accumulate this income and make distribution to the beneficiaries on a tax-paid basis. Any tax liability is the obligation of the beneficiaries of the estate or trust. Include a copy of federal K-1 for each beneficiary and note any modifications specific to Iowa.

Trusts making an accumulation distribution must attach a copy of federal Schedule J, reporting the amount of Iowa income tax distributed to each beneficiary.

Line 22: Taxable Income of Fiduciary. On a final return taxable income must be zero.

Computed Tax (Lines 23-33)

Lines 23 through 33 are to be completed for both resident and nonresident estates and trusts. Nonresidents must also complete Schedule C using special instructions provided on that form.

Line 24: Iowa Lump-Sum Tax. If federal form 4972 was used to compute federal tax on all or part of a lump-sum distribution, enter 25% of the separate federal tax imposed. A copy of federal form 4972 must be included.

Line 25: Iowa Alternative Minimum Tax. The Iowa alternative minimum tax is a tax imposed on items not subject to regular income tax, classified as tax preference items. You may be subject to the Iowa alternative minimum tax even if you were not subject to the federal minimum tax. For complete information on the Iowa alternative minimum tax, see IA 1041 Schedule I.

Line 27: Personal Exemption Credit. A \$40 exemption credit is allowed on all fiduciary returns regardless of whether the return covers less than a full tax year. This is a nonrefundable credit.

Line 30: Out-of-State or Nonresident Tax Credit. Iowa estates and trusts that have income from non-Iowa sources must report this income to Iowa for taxation. If income tax has been paid on the non-Iowa income to another jurisdiction, a credit for the tax paid will be allowed and computed in the same manner as for Iowa individual income tax using form IA 130. Nonresident estates and trusts are not eligible for an out-of-state credit; they should enter the amount from line 28 of Schedule C.

Line 31: Motor Fuel Tax Credit. A credit may be claimed for Iowa motor vehicle fuel tax paid on fuel used off-highway in an unlicensed vehicle. If the ordinary income during the accounting period is completely or partially accumulated and tax is the obligation of the fiduciary, the credit is claimed on line 31. If the ordinary income is fully distributed, credit cannot be claimed on the fiduciary return. Instead, the beneficiaries are entitled to claim their pro rata share of the credit on their individual income tax returns. The fiduciary must provide each beneficiary with an IA 4136 Motor Fuel Tax Credit form and a supplemental schedule showing the distribution of credit among the beneficiaries, allowing the beneficiary to claim the credit.

Line 32: Other Credits. Enter the total of credits from Part III of the IA 148 Tax Credits Schedule. This amount can include both nonrefundable and

refundable credit claims. Use Part I of the IA 148 to limit the claim of any nonrefundable credits to tax liability (line 26) less the personal exemption credit on line 27 and the nonresident credit on line 30. The IA 148 Tax Credits Schedule must be included if there is an entry on this line. For tax years beginning on or after January 1, 2013, estates or trusts with a situs in Iowa that are shareholders in S corporations may claim the S corporation apportionment credit using Form IA 134 if the S corporation conducts business outside Iowa.

Tax Due

Line 34: Extending the Time to File the Iowa Fiduciary Return. If 90% of the correct amount due is paid by the original due date of the return, then no penalty will be assessed provided that the return is filed within six months of the due date. Any tax elections made on the return will be considered timely if the return is filed no later than six months from the original due date. If additional payment is necessary in order to meet the 90% requirement, you must pay using the Iowa Fiduciary Income Tax Payment Voucher (63-007). Extension form 60-027 is used for inheritance tax purposes only.

Line 37: Amount Due. Your check or money order for the amount due should be made payable to "Treasurer, State of Iowa." The check or money order and Fiduciary Income Tax Payment Voucher (63-007) should be included with the Iowa fiduciary tax return.

Nonresident Instructions

A taxpayer that is not a full-year resident of Iowa should list all-source income and deductions on page 1 of the return, and Column B of Schedule C. Iowa-source income in Column A of Schedule C includes, but is not limited to, income from an Iowa business, farm, or other real estate; and wages, fees, or commissions earned in Iowa. Income from bank accounts, stocks, bonds, or other intangible personal property is assigned to Iowa only to the extent that it is from a business, trade, or profession carried on within Iowa. If this is an Electing Small Business Trust (ESBT), then line 8 is to include the ESBT income.

Nonresident Beneficiary Income from Trust/Estate. Nonresident beneficiaries who receive income from the trust/estate are required to report this income on an Iowa individual income tax return. Examples of taxable income are rental income and capital gains from the sale of Iowa property. If the tax year of the beneficiary is different from the trust/estate, the income is to be included on the beneficiary's Iowa return for the year in which the tax year of the trust/estate ends. Nonresidents must complete both the IA 1040 return and the IA 126 Iowa Nonresident and Part-year Resident Credit form. Individual filing requirements, forms, and instructions are found on the Department website (<https://tax.iowa.gov>).

Nonresident Withholding. If the nonresident beneficiary has not filed a declaration of Iowa estimated income tax and paid the estimate in full, the fiduciary of an estate or trust, as a withholding agent, must withhold Iowa income tax at the rate of 5% from the distribution of taxable Iowa-source income to a nonresident beneficiary. Beneficiaries must be given copies of W-2s showing withholding and identification numbers of the estate or trust. In lieu of making the payment of withholding, the fiduciary, on behalf of the nonresident, may send in the 5% as an estimated payment using the respective IA 1040ES quarterly installment form. Nonresident beneficiaries must be notified of the amount of estimated payment to claim on their Iowa individual income tax return. Nonresident receivers of proceeds from sales of agricultural commodities can avoid withholding if the payer of the proceeds provides the Department with a statement of the proceeds paid at the end of the tax year. These nonresidents should make quarterly estimated payments using form IA 1040ES.