

## 2019 IA 1065 Partnership Return of Income

### Who Must File

Every partnership deriving income/loss from real, tangible, or intangible property owned within Iowa or from a business carried on within Iowa must file. The Iowa partnership form must also be used by syndicates, pools, joint ventures, limited liability companies, and other similar entities required to report activities on a federal partnership return.

**Note:** Only partnerships with activity (income/loss) from Iowa sources, or which are domiciled in Iowa, are required to file. A non-Iowa partnership should not file only because one or more of its partners are Iowa residents, or because the partnership is registered with the Iowa Secretary of State.

### Distribution of Partnership Income

A partnership is not a taxable entity in Iowa, but the members of a partnership are taxed on their individual shares whether actually distributed to them or not. This pass-through income is reportable on the partner's individual, trust, or corporate tax return.

**Individual Partners:** If the tax year of a partner is different from that of the partnership, the distributable share is to be included in the individual return for the year in which the tax year of the partnership ends. When filing Iowa individual income tax returns, all partners must report all partnership income that is reportable on the partner's federal return on the IA 1040. Modifications may be reported on the "Other adjustments" or "Other income" lines of the IA 1040. In addition, nonresident partners must report all Iowa-source income and adjustments on Iowa form IA 126, Iowa Nonresident and Part-Year Resident Credit. Individual income tax filing requirements are available in the IA 1040 instruction booklet. These instructions are available on the Department website (<https://tax.iowa.gov>).

### Composite Filing

A partnership may file an Iowa composite individual income tax return and pay any tax due on behalf of the nonresident partners who have no other Iowa income and meet minimum income requirements. See form IA 1040C for further information.

### Apportionment of Iowa-Source Income

If a partnership's income is from the manufacture or sale of tangible personal property, the amount of income apportioned to Iowa is to be based on that portion which the gross sales made within the state bears to the total gross sales of the partnership. The sale of tangible personal property occurs in Iowa if the property is shipped or delivered to a point within Iowa, regardless of the Freight on Board (F.O.B.) point or other conditions of the sale. If the partnership's distribution includes income derived from business other than the manufacture or sale of tangible personal property, it is to be apportioned to Iowa in the ratio to which the Iowa gross receipts bear to the total gross receipts of the partnership. The partnership will provide each partner a copy of the IA Schedule K-1, which will show how the Iowa portion of the partnership income is apportioned to each partner.

### Tax Preference Items

If the partnership had tax preference or alternative minimum tax (AMT) adjustment items, they will be allocated to the partners in the same ratio as net income from the partnership is allocated. The partners may be subject to the Iowa AMT on the items of tax preference or adjustments allocated to them.

### Fuel Tax Credit

If the partnership does not have a fuel tax refund permit or has canceled its refund permit within the first 30 days of the year, a Fuel Tax Credit may be claimed by each partner on his or her individual income tax return (or by a C corporation if it is a partner). If a Fuel Tax Credit is claimed, complete the IA 4136 and include it with the IA 1065. Each partner's share is recorded in Part III of the partner's IA Schedule K-1.

### Other Tax Credits

Partners may qualify for various tax credits passed through to them by the partnership. The partnership must complete the appropriate form(s), where applicable, to compute these

credits (for example: IA 128; IA 137) and include them with the IA 1065. The partnership is not required to complete an IA 148 Tax Credits Schedule. Each partner's share of Iowa tax credits must be recorded in Part III of the partner's IA Schedule K-1 including certificate numbers. Partners must complete the IA 148 to claim credits, reporting the partnership in Part IV as the pass-through entity.

### **Time and Place for Filing**

The Iowa partnership return must be filed on or before the last day of the fourth month following the close of the partnership's tax year. For calendar year filers, the due date is April 30, 2020. There is an automatic 6-month extension of time to file after April 30, 2020. No extension request form is required. Mail returns to Income Tax Return Processing, Iowa Department of

Revenue, Hoover State Office Building, Des Moines, Iowa 50319-0120. Partners with pass-through income need to review individual, Limited Liability Company (LLC), trust, or corporate income tax due dates and filing requirements. These instructions are available on the Department website (<https://tax.iowa.gov>)

### **For Additional Information**

Contact Taxpayer Services at 515-281-3114 or 800-367-3388 8 a.m. - 4:15 p.m. CT or email [idr@iowa.gov](mailto:idr@iowa.gov).

### **Federal Partnership Return**

A copy of the federal partnership 1065 return and all other supporting schedules must be included with this form. Do not include federal Schedule K-1.

## **Completing the Return**

### **Calendar Year or Fiscal Year**

If the partnership operates on a fiscal-year basis, enter the beginning and ending dates here, otherwise leave blank. The Iowa partnership return must be made on the same period basis as the partnership accounts are required to be kept for federal tax purposes, even if partners report their income on a different year basis.

### **Part I – Partnership Name and Address**

- If the partnership has a Federal Employer Identification Number (FEIN), it must be entered here. If the partnership has applied for but not yet received a number, enter "applied for" and inform the Department of the number once it is obtained. For information on obtaining an FEIN, contact the IRS at 800-829-4933.
- Enter the county number of the main Iowa location. Non-Iowa partnerships without an Iowa location should enter 00. A list of county numbers can be found on the Department website (<https://tax.iowa.gov>).
- Enter the business code number provided by the Internal Revenue Service (IRS) for the specific industry group corresponding to the partnership's primary business activity

available at the IRS website ([www.irs.gov](http://www.irs.gov)).

- Enter a contact person's name and phone number. The contact person should be able to answer specific questions about the partnership's operations and accounting practices.
- Enter a one or two word description of the partnership's principal activity.
- Enter the total number of partners and include their corresponding IA Schedule K-1s. Include one for each person who was a partner at any time during the tax year.

### **Part II – Partnership Information**

Check the type of return being filed: Partnership, LLC, Limited Liability Partnership (LLP) or other.

Answer the three questions about the partnership's activities. If the answer is "No" to all three questions, the partnership is not required to file an IA 1065, unless its commercial domicile is in Iowa. If the answer is "Yes" to any question, or if it's commercial domicile is in Iowa, the partnership must file an IA 1065, including the IA Schedule K-1. If the commercial domicile is in Iowa and the answer is "No" to all three questions, enter "zero" in column (b) of the IA Schedule K-1 for each nonresident partner. If the answer to any

question was yes, a percentage greater than zero must be entered in column (b) of the IA Schedule K-1 for each nonresident partner.

### **Part III – Modification of Partnership Income**

Part III is used to document those modifications or adjustments to federal form 1065 Schedule K income that are required by Iowa Code § 422.7 and Chapter 40 of the Iowa Administrative Code to the extent applicable to partnerships, in order to show the total modified net income from the partnership.

**Line 1: Federal Taxable Income** – Net together items of income or loss on the federal Schedule K and those deductions on federal Schedule K that do not qualify as itemized deductions. Enter the net figure on this line.

**Line 2: Interest** – Enter the total amount of interest and dividends from foreign securities, from securities of state and other political subdivisions, and from regulated investment companies exempt from federal income tax and not exempt from Iowa income taxes. (Iowa Code § 422.7(2), (17); Iowa Rules 701-40.3, 40.32, 40.52)

**Line 3: Other Additions** – Enter the total amount of other additions to partnership income required under Iowa law. Include a schedule describing the type and amount of each addition. If the partnership is also a member of another partnership or the beneficiary of an estate or trust, enter the partnership's distributive share of additions furnished by the other partnership, estate, or trust. Consult the following forms and worksheets:

- Form IA 4562A—Section 179 expensing and bonus depreciation adjustments
- IA 8824 Like-Kind Exchange Worksheet
- Form IA 101 Nonconformity Adjustments

**Line 5: Federal Securities Interest** – Enter the total interest received from federal securities such as U.S. Treasury bonds, notes, bills, and savings bonds included in taxable income for federal income tax purposes. Include any loss on the sale or exchange of a share from a regulated investment company held for six months or less to the extent the loss was

disallowed under section 852(b)(4)(B) of the Internal Revenue Code. (Iowa Code § 422.7(1), (17); Iowa Rules 701-40.2, 40.32, 40.52)

**Line 6: Other Reductions** – Enter the total amount of other reductions to partnership income required or allowed under Iowa law. Include a schedule describing the type and amount of each reduction. If the partnership is also a member of another partnership or the beneficiary of an estate or trust, enter on this line the partnership's distributive share of reductions furnished by the other partnership or estate or trust. Examples of Iowa reductions include the following:

- Federal Work Opportunity Tax Credit, Employer Social Security Credit for Tips, or Alcohol and Cellulosic Biofuel Credit, to the extent such credits increased federal partnership income. (Iowa Code § 422.7(8), (9), (30); Iowa Rules 701-40.9, 40.49)
- Additional deduction for wages paid to new employees who qualify as persons with disabilities or as ex-offenders. (Iowa Code § 422.7(12), (12A); Iowa Rule 701-40.21)

Also consult the following forms and worksheets:

- Form IA 4562A—Section 179 expensing and bonus depreciation adjustments
- IA 8824 Like-Kind Exchange Worksheet
- Form IA 101 Nonconformity Adjustments

**Line 8: Net Modifications** – This line could result in either a positive or negative number.

### **Part IV – Business Activity Ratio (BAR)**

If the partnership is doing business wholly within Iowa, skip lines 1 - 12 and enter 100.00 on line 13. If the partnership is doing business both within and without Iowa, complete all applicable lines. Dividends are net of special deductions. Business income means income which arises from the partnership's unitary trade or business, a part of which is conducted within Iowa. Business income must be apportioned to Iowa by means of the BAR. Investment income may at the taxpayer's election be included in the computation of the BAR. The taxpayer will have elected whether to include investment income in the computation of the BAR for that year and all subsequent years. Consequently, that year and for subsequent years total

investment income which is determined to be business income will be included in the numerator as follows (see Iowa rule 701-54.2(3) for clarification):

- Accounts receivable interest is to be included in the numerator to the extent allocable to Iowa.
- All investment income that is business income, including capital gains or losses, must be included in the computation of the BAR if the investment income is derived from intangible property that has become an integral part of some business activity occurring regularly in or outside of Iowa.
- Capital and ordinary gains or losses, or rent

and royalties from real property must be included in the numerator for property located in Iowa.

- Other investment income including interest, net dividends, capital and ordinary gains, and royalties from intangibles must be included in the numerator if the commercial domicile is in Iowa.

#### **Signature:**

The return must be signed and dated by a partner or member. The return will not be considered valid unless this requirement is met. Also include the signer's title and daytime phone number.

### **Instructions for IA 1065 Schedule K-1**

IA Schedule K-1 shows each partner's share of modifications, all-source income, Iowa apportioned income, and Iowa tax credits. Complete information for each partner in an acceptable format must be provided. Forms IA 1065 and IA Schedule K-1 are provided on our website. Individual partners: When completing the individual IA 1040, report the amounts shown on the federal Schedule K-1. These amounts should match the IA Schedule K-1, column (a) items, except line 12(a) in certain cases as described below. In addition, individual nonresident partners report totals from column (c) on Iowa form IA 126, Iowa Nonresident and Part-year Resident Credit.

#### **Substantial built-in loss nonconformity for transfer of partnership interest that occurred in tax year 2018.**

Iowa did not conform to IRC section 743(d)(1)(B) for transfers of partnership interests occurring in tax year 2018. This means that if a partner was transferred a partnership interest in tax year 2018 which had a substantial built-in loss for federal purposes solely as a result of that provision (in other words, not as a result of IRC section 743(d)(1)(A) or an election under IRC section 754) then no substantial built-in loss existed for that transfer for Iowa purposes, and the resulting adjustments to the transferee partner's basis under IRC section 743(b) did not apply for Iowa purposes. This may result in differences in the amount of federal and Iowa

income or loss in the years in which the partnership disposes of property affected by this basis adjustment. If this occurs, adjust for the items of income and loss to the affected partner and include the net result as an adjustment on line 16a of that partner's IA 1065 Schedule K-1 in the year of such disposition. Attach a schedule explaining the changes to both the partner's copy of the K-1, and to the partnership's own Iowa return.

#### **Part I: General Information**

##### **Partnership/Limited Liability Company (LLC) information**

Enter name and Federal Employer Identification Number (FEIN) of partnership on each IA Schedule K-1.

##### **Partner Information**

- Enter name, Social Security Number (SSN) or FEIN, and address of partner.
- Check either the resident partner or nonresident partner box, based on the partner's current address.
- Check the amended box if the IA Schedule K-1 is part of an amended 1065 return.
- Check the appropriate box for the partner's entity type.
- Enter partner's percentage of ownership in the partnership.
- Enter the partnership's Iowa receipts, as reported on page 1, Part IV, line 12, column A, of the IA 1065.
- Enter the partnership's total receipts, as

- reported on page 1, Part IV, line 12, column B, of the IA 1065. If Business Activity Ratio (BAR) is 100%, enter the Gross Receipts from line 1a, page 1 of the federal 1065.
- Corporate partners: Include your share of the partnership's Iowa receipts and total receipts in the BAR on the IA 1120.
  - Enter the partnership's BAR from page 1, Part IV, line 13, of the IA 1065

**Part II: Partner's Pro Rata Share Items:**

**Column (a), lines 1 through 15(f):**

Enter the same amounts as shown on the federal Schedule K-1, except as provided below for line 12(a). These figures are reportable as part of income/loss on the IA 1040.

**Resident shareholders complete column (a) only.**

**Column (b), lines 1 through 15(f):**

For nonresident partners only, enter the partnership's single factor Iowa BAR. The BAR in column (b) must be applied equally to each line item in column (a); no method of separate accounting is allowed. Please contact the Department for more information on the BAR for investment partnerships.

**Column (c), lines 1 through 15(f):**

For nonresident partners only, multiply the amounts in column (a) by the percentage in column (b) and enter the product in column (c) for each line item. This is the amount apportionable to Iowa. Nonresidents: These figures may be reportable on your IA 126 nonresident schedule.

**Line 12(a):** If the partnership's section 179 expense exceeds the Iowa limit, enter the partner's pro rata share of the partnership's total section 179 deduction as adjusted for Iowa purposes. To determine this amount, first calculate the partnership's 179 deduction as adjusted to account for the lower Iowa limit. This should equal the total amount on the partnership's IA 4562A, Part 1, Column H, excluding any amount of "special election" deduction from the partnership's IA 4562B, Part II, that is reported in that Column H. Then determine each partner's pro rata share of that Iowa-adjusted amount, and enter the partner's pro rata share of that amount on line 12a (this

applies whether the partner is an individual, a corporation, or another partnership).

If the partnership's total section 179 expense does not exceed the lower Iowa limits as computed on the IA 4562A & B, enter the same amount as shown on the federal Schedule K-1.

The amount shown on this line is the amount of the section 179 deduction that the partner may deduct on their own Iowa return, subject to the partner's Iowa section 179 expense limitations. See the instructions for IA 1065, line 3, and the IA 4562A & B for more information on how to calculate the partnership's Iowa 179 limitation.

**Line 15(f):** Include a schedule showing the name and amount for each item reported on line 15(f).

**Line 16(a):** Enter the partner's all-source modifications. This figure is equal to the partnership's all-source modifications multiplied by the partner's ownership percentage.

**Individual partners:** If this figure is a positive amount, report it on line 14 of the IA 1040. If this figure is a negative amount, report it on line 24 of the IA 1040.

**Line 16(b):** For nonresident partners only, enter the Iowa BAR.

**Line 16(c):** For nonresident partners only, multiply line 16(a) by the percentage on line 16(b) and enter here. Nonresident Partners: If this entry is a positive amount, also enter it on line 14 of the IA 126 form. If this entry is a negative amount, enter it on line 24 of the IA 126 form.

**Line 17: Partner's share of 2018 business interest expense adjustment.**

The purpose of this line is for the partnership to report to each partner the amount of 2018 business interest expense adjustment that was included in the partner's 2018 all-source modification on the 2018 IA 1065 Schedule K-1, line 16(a). The partner is required to use this amount in computing the partner's business interest expense carryforward adjustment on the IA 101 Nonconformity Adjustments, Part I, line 3.

Follow the instructions below for the partnership and the partner to report and apply the amounts

on this line.

**Partnership:** Report the partner's share of the 2018 business interest expense that was disallowed for federal purposes under IRC section 163(j), but which the partnership was allowed to deduct for Iowa purposes in 2018 on the partnership's 2018 Iowa Nonconformity Adjustments Worksheet, line 3. The amount entered on line 17 of each partner's 2019 Iowa K-1 should match the amount entered on that partner's federal 2018 Schedule K-1 (Form 1065), Box 13, Code K. Enter \$0 on this line if the partnership was not required to file an Iowa return in 2018, even if the partner did have an amount shown on the partner's federal 2018 Schedule K-1 (Form 1065), Box 13, Code K. The total amount entered on all partners' 2019 IA 1065 K-1s, line 17 shall not exceed the amount the Partnership deducted on its 2018 Iowa Nonconformity Adjustments Worksheet, Line 3.

**Partners:** Include this amount when calculating your total 2018 nonconformity adjustment attributable to the IRC section 163(j) business interest expense limitation that is reported on your IA 101, Part II, row b, column A. If you also have 2018 section 163(j) business interest expense adjustments from other sources, the amount you enter on your IA 101, Part II, row b, column A will be the sum of the amount shown on this line and those other adjustments. See IA 101, Part II instructions for more details.

The total amount calculated on your IA 101, Part II, row b, columns A through D is then used to determine your 2019 and future year nonconformity adjustments reported on the IA 101, Part I, line 3. See the IA 101, Part I instructions for more details.

**Part III: Partner's Portion of IA Credits/Withholding:** If the partnership submitted Iowa withholding for the partner, enter it in the current year amount column on the first line of the schedule. If none, enter zero.

**Note:** If paying a nonresident an Iowa nonwage payment, Iowa income tax must be withheld at a rate of 5% of the payment amount. The partnership must register with the Iowa Department of Revenue for withholding tax using the Iowa Business Tax Registration form.

Nonresidents who prefer to make an Iowa estimated payment instead must file an Iowa Nonresident Request for Release from Withholding form and submit the form with their first estimated payment prior to April 30, 2020. If a partnership is filing an IA 1040C return on behalf of its nonresident partners no withholding or estimated payments are required.

**For all other credits,** enter the tax credit name in the first column. For awarded credits, enter the certificate number in the second column. Enter the partner's share of the current year amount in the third column.