2019 IA 1120S Income Tax Return for S Corporations

Who Must File
Every S corporation doing business in Iowa, deriving income from sources within Iowa, or which is domiciled in Iowa, must file an Iowa S corporation return. S corporations, interest charge domestic international sales corporations, and foreign sales corporations should file form IA 1120S. If the S corporation is a financial institution, it must also file form IA 1120F. Note: A non-Iowa S corporation should not file only because one or more of its shareholders are Iowa residents or because the S corporation is registered with the Iowa Secretary of State.

When and Where to File
The IA 1120S is due on or before the last day of the fourth month after the close of the taxable year. If you owe tax per line 11, Part III, an automatic extension of up to six months to file will be granted only if at least 90% of the total tax liability is paid by the due date of the return. The 6 month extension also applies to all filers with zero balance due.

Mail returns to: Corporation Return Processing, Iowa Department of Revenue, PO Box 10468, Des Moines IA 50306-0468.

Composite Filing
An S corporation may file an Iowa composite individual income tax return and pay any tax due on behalf of nonresident shareholders. See form IA 1040C for further information.

Fuel Tax Credit
If the S corporation 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 shareholder on his or her individual income tax return. If a Fuel Tax Credit is claimed, complete the IA 4136 and include it with the IA 1120S. Each shareholder's portion is recorded in Part III of the shareholder's IA Schedule K-1.

Other Tax Credits
Shareholders may qualify for various tax credits passed through to them by the S corporation. The S corporation must complete the appropriate form(s), where applicable, to compute these credits (for example: IA 128; IA 137) and include them with the IA 1120S. The S corporation is not required to complete an IA 148 Tax Credits Schedule. Each shareholder's portion of Iowa tax credits must be recorded in Part III of the shareholder's IA Schedule K-1, including certificate numbers. Shareholders must complete an IA 148 Tax Credits Schedule to claim credits, reporting the S corporation in Part IV as the pass-through entity.

Amended Returns
If an amended federal return was filed for a prior period, the taxpayer must file an amended Iowa return. Use the IA 1120S to file and check the "Amended Return" box. The IA 1120S cannot be used for sales tax or withholding credits/refunds.

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

Completing the Return

Fiscal year or short period filers: Enter the beginning and ending dates here. Calendar year filers may leave this section blank.

Part I: Corporation Name and Address
Enter the business code number provided by the Internal Revenue Service (IRS) for the specific industry group corresponding to the S corporation's primary business activity available on the IRS website (www.irs.gov).

Enter the Iowa county number of the commercial domicile or principal place of business. Enter 00 if the S corporation does not have a physical location in Iowa. A list of county numbers can be found on the Department website (https://tax.iowa.gov).

Enter the total number of shareholders. If this is a first or final return, check all boxes that apply to the S corporation. If you checked "other," enter a short one or two word description.

Part III: Modification of Corporation Income
This schedule is to document those modifications or adjustments to federal form 1120S Schedule K income that are required by Iowa Code § 422.35 and chapter 53 of the

Iowa Administrative Code, in order to show the total modified net income from the S corporation.

Line 1: Federal Net Income – Net together items of income or loss on the federal form 1120S Schedule K and those deductions on the federal form 1120S Schedule K that do not qualify as itemized deductions. Enter that net figure on this line.

Line 2: Interest and Dividends Exempt from Federal Tax – Enter the 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. (Iowa Code § 422.35(2); Iowa Rule 701-53.6)

Line 3: Other Additions – Enter the total amount of other additions to S corporation income required under Iowa law. 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: 50% of Federal Tax – Enter 50% of federal income tax paid or accrued, including federal tax paid on built-in gains or passive investment income. (Iowa Code § 422.35(4); Iowa Rule 701-53.12)

Line 6: Federal Securities Interest – Enter the amount of interest and dividends from federal securities as shown on the federal return. (Iowa Code § 422.35(1); Iowa Rule 701-53.5)

Line 7: Other Reductions – Enter total amount of other reductions to S corporation income required or allowed under Iowa law. Include a schedule describing the type and amount of each reduction. 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 S corporation income. (Iowa Code § 422.35(5), (7), (17); Iowa Rules 701-53.10, 53.20)
- Additional deduction for wages paid to new employees who qualify as persons with disabilities or as ex-offenders. (Iowa Code § 422.35(6), (6A); Iowa Rule 701-53.11)

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 9: Net Modifications – Subtract line 8 from line 4. This can result in either a positive or a negative amount.

Line 11: Tax on Built-in Gains or Passive Investment Income – S corporations that are subject to tax on built-in gains under section 1374 of the Internal Revenue Code or passive investment income under section 1375 of the Internal Revenue Code are subject to Iowa corporation income tax on this income to the extent received from business carried on in this state or from sources in this state.

The starting point for computing the Iowa tax on built-in gains or passive investment income is the amount of built-in gains or passive investment income subject to federal tax after considering the federal income limitation.

For tax years beginning on or after January 1, 2019, Iowa will use a 5-year recognition period for the built-in gain tax (except for certain installment sales), which is the same as federal law as modified by Public Law 114-113 (PATH Act).

For tax years beginning on or after January 1, 2016, but prior to January 1, 2019, Iowa was generally not conformed to the federal PATH Act and therefore used a 10-year recognition period, so S corporations that realized a built-in gain after the 5-year federal recognition period but within the 10-year Iowa recognition period were subject to the built-in gains tax for Iowa purposes.

For tax years beginning on or after January 1, 2014, no adjustment is made to the preceding amounts for 50% of federal income tax and/or Iowa corporation income tax deducted in computing the federal built-in gains tax. The allocation and apportionment rules of Iowa Administrative Code Chapter 701-54 apply if the

S corporation is carrying on business within and without the State of Iowa.

Any net operating loss carryforward arising in a taxable year for which the corporation was a C corporation is allowed as a deduction against the net recognized built-in gains or passive investment income of the S corporation for the taxable year. For purposes of determining the amount of any such loss which may be carried to any of the 15 subsequent taxable years (20 years for tax years beginning after August 5, 1997) after the year of the net operating loss, the amount of the net recognized built-in gain or passive investment income is treated as taxable income. The amount of Iowa taxable built-in gains or passive investment income is subject to tax at the same rates as C corporation income (6%, 8%, 10%, 12%).

Under $25,000, multiply by 6%.

$25,000 to $100,000, multiply by 8% and subtract $500

$100,000 to $250,000, multiply by 10% and subtract $2,500.

Over $250,000, multiply by 12% and subtract $7,500.

Except for estimated and other advance tax payments, and any credit carryforward under Iowa Code section 422.33 arising in a taxable year for which the corporation was a C corporation, no credits are allowed against the built-in gains or passive investment income tax. Pay online on the Department website (https://tax.iowa.gov), or make checks payable to Treasurer, State of Iowa.

Refund Requests
If a refund is due because estimated payments exceed the tax due, you must request a refund by separate letter. Send to Iowa Department of Revenue, PO Box 10456, Des Moines IA 50306-0456.

Part IV: Business Activity Ratio (BAR)
If an S corporation is doing business wholly within Iowa, skip lines 1-12 and enter 100.00 on line 13.

If the S corporation 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 S 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 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 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 if the property is 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.

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

Part V: Information from Prior Period Iowa Return
Enter the requested information from the Iowa 1120S return for previous tax period.

Federal S Corporation Return
A copy of the federal corporation return, form 1120S, and all other supporting schedules, (not including the federal Schedule K-1) must be included with this form.

Signature
The corporation return must be signed by the president or other duly authorized officer. The return will not be considered valid unless this requirement is met.

Instructions for IA 1120S Schedule K-1

Shareholder's Share of Income & Deductions, & Modifications

The Iowa 1120S Schedule K-1 shows each shareholder's share of modifications, all-source income, Iowa apportioned income, and Iowa tax credits. You must provide complete information for each shareholder in an acceptable format. Forms IA 1120S and IA 1120S Schedule K-1 are provided on our website.

Individual Shareholders: When completing your 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 11(a) in certain cases as described below. In addition, individual nonresident shareholders report amounts from column (c) on form IA 126, "Iowa Nonresident and Part-year Resident Credit." If the S corporation does business within and without Iowa, the BAR in column (b) must be provided to each Iowa resident shareholder for purposes of computing the S Corporation Apportionment Credit, form IA 134, if they elect that option.

Part I: Corporation Information
Enter name and Federal Employer Identification Number (FEIN) of S corporation on each IA Schedule K-1 form.

Shareholder Information
- Enter name, Social Security Number (SSN), or FEIN, and address of each shareholder.
- Check either the resident shareholder or nonresident shareholder box, based on the shareholder's current address.
- Check the amended box if the Schedule K-1 is part of an amended 1120S return.
- Check the appropriate box for the shareholder's entity type.
- Enter shareholder's percentage of ownership in the S corporation. Carry this

percentage to 6 decimal places if needed.
- Enter the S corporation's Iowa receipts, as reported on page 1, Part IV, line 12, column A of the IA 1120S*.
- Enter the S corporation's total receipts, as reported on page 1, Part IV, line 12, column B of the IA 1120S*.
  * If BAR is 100%, enter the Gross Receipts from line 1a, page 1 of the federal 1120S.
- Enter the S corporation's BAR from page 1, Part IV, line 13 of the IA 1120S.

Part II: Shareholder's Pro Rata Share Items

Column (a), lines 1 through 14(f):
Enter the same amounts as shown on the federal Schedule K-1, except as provided below for line 11(a). These figures are reportable as part of income/loss on your IA 1040.

Resident shareholders complete column (a) only.

Column (b), lines 1 through 14(f):
For nonresident shareholders only, enter the S corporation's single factor Iowa Business Activity Ratio (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 S corporations.

Column (c), lines 1 through 14(f):
For nonresident shareholders 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 11(a): If the corporation's section 179 expense exceeds the Iowa limit, enter the

shareholder's pro rata share of the corporation's total section 179 deduction as adjusted for Iowa purposes. To determine this amount, first calculate the corporation's 179 deduction as adjusted to account for the lower Iowa limit. This should equal the total amount on the corporation's IA 4562A, Part 1, Column H, excluding any amount of "special election" deduction from the corporation's IA 4562B, Part II, that is reported in that Column H. Then determine each shareholder's pro rata share of that Iowa-adjusted amount, and enter the shareholder's pro rata share of that amount on line 11a.

If the corporation'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 shareholder may deduct on their own Iowa return, subject to the shareholder's Iowa section 179 expense limitations. See the instructions for IA 1120S, line 3, and the IA 4562A & B for more information on how to calculate the corporation's Iowa 179 limitation.

Line 14(f): Include a schedule showing the name and amount for each item reported on line 14(f).

Line 15(a): Enter the shareholder's all-source modifications. This figure is equal to the S corporation's all-source modifications multiplied by the shareholder's ownership percentage.

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

Line 15(b): For nonresident shareholders only, enter the Iowa BAR.

Line 15(c): For nonresident shareholders only, multiply line 15(a) by the percentage on line 15(b) and enter here. Nonresident Shareholders: If this entry is a positive amount, also enter it on line 14 of your IA 126 form. If this entry is a negative amount, enter it on line 24 of your IA 126 form.

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

If paying a nonresident an Iowa nonwage payment, Iowa income tax must be withheld at a rate of 5% of the payment amount. The S corporation 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 an S corporation is filing an IA 1040C return on behalf of its nonresident shareholders no withholding or estimated payments are required.

Franchise Tax Credit
If the shareholder is eligible to claim the Franchise Tax Credit, you must include the following information with the IA Schedule K-1 to allow shareholders to complete Form IA 147.
- The modified federal income from Part III, Line 10 of the 1120S
- The financial institution's total tax liability, line 15 of the 1120F
- The financial institution's tax credit claims, line 16 of the 1120F
- The shareholder's ownership percentage

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