

2020 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 form 1041 return and appropriate schedules, including federal K-1s for each beneficiary, 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.

Amended Return

If an amended federal return was filed, the taxpayer must file an amended Iowa return and include the IA 102. Use the IA 1041 to file and check the "Amended Return" box.

Is Income Tax Certificate of Acquittance Requested?

The "Yes" box after this question must be checked when requesting an income tax certificate of acquittance. You must refile if the "No" box is checked in error. Only returns checked as "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 PTIN

Enter the preparer's Preparer Tax Identification Number (PTIN). If the preparer does not have a PTIN, enter the preparer's Social Security Number (SSN) or Federal Employer Identification Number (FEIN).

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

Refund Claims and Federal Tax Changes

Claims for refund must be made within a certain period of time. The Department has additional time to make a determination of the correct tax following a federal amended return or federal audit, and that additional time is unlimited if the taxpayer does not provide sufficient notice of the federal changes to the Department. For more information regarding refund claims and federal tax changes, see the instructions to the IA 102 Amended Return Schedule.

State Business Representative

If the estate or trust desires to appoint someone other than the fiduciary as the state business representative for purposes of Iowa Code section 422.25B, a statement should be attached to the return indicating who is appointed as state business representative as well as their contact information.

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.

Conformity with Internal Revenue Code

For tax year 2020, Iowa generally conforms with federal tax changes, to the extent they affect Iowa income taxes, for tax years beginning on or after January 1, 2020, but certain Iowa nonconformity adjustments may be necessary. Note, for tax year 2019, Iowa generally conforms with the IRC in effect on March 24, 2018. See the IA 4562A & B, the IA 8824 worksheet, and the IA 101 Nonconformity Adjustments for more information.

Paycheck Protection Program (PPP)

PPP loans that are forgiven and properly excluded from gross income for federal purposes will also qualify for exclusion from income for Iowa tax purposes.

For tax years beginning on or after January 1, 2020, Iowa fully conforms to the relevant tax provisions of the federal Consolidated Appropriations Act, 2021 (P.L. 116-260) including the provisions allowing certain deductions for business expenses paid using these loans.

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. Include the same amounts of interest income reported on the federal form 1041, line 1, with the following modifications:

- Subtract interest received from federal securities. For more information, see Iowa Code § 422.7(1); Iowa Admin. Code rr. 701—40.2, 89.8(7)"e".
- Add interest from foreign securities and state and municipal securities to the extent that interest was exempt from federal tax. However, interest from certain Iowa state and municipal securities is exempt from Iowa tax and should not be included on this line. For more information, see Iowa Code § 422.7(2); Iowa Admin. Code rr. 701—40.3, 89.8(7)"e".

Line 2: Ordinary Dividend Income. Include the same amounts of dividend income reported on the federal form 1041, line 2a, with the following modifications:

- Subtract dividends received from federal securities. For more information, see Iowa Code § 422.7(1); Iowa Admin. Code r. 701—40.2.
- Add dividends from foreign securities and state and municipal securities to the extent those dividends were exempt from federal tax. However, dividends from certain Iowa state and municipal securities is exempt from Iowa tax and should not be included on this line. For more information, see Iowa Code § 422.7(2); Iowa Admin. Code r. 701—40.3.

Line 3: Income from partnerships and other fiduciaries. Include the same amount of income from other pass-through entities and fiduciaries, and from farm rental income, as reported on the estate's or trust's federal Schedule E and on the federal form 1041, line 5. Include a supporting schedule detailing the source, type, and amount of each item of income.

Line 4: Net Rents and Royalties. Include the same amount of rents and royalties as reported on the estate's or trust's federal Schedule E and on the federal form 1041, line 5.

Note: the sum of the income reported on lines 3 and 4 of the IA 1041 should equal the amount reported on the federal form 1041, line 5.

Line 5: Net Business and Farm Income (Loss). Include the same amount of business income and farm income as reported on the estate's or trust's federal Schedules C and F and on the federal form 1041, lines 3 and 6. Include federal Schedules C and F.

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) and on federal form 1041, line 4. Iowa follows the federal loss guidelines.

Line 7: Ordinary Gains (Losses). Enter the total ordinary gain or loss reported on federal 1041, line 7. Include federal form 4797.

Line 8: Other Income. Enter other income or adjustments to income on this line, and state the nature of the income or adjustment. List the type and amount on an attached schedule if the estate or trust has more than one item. Items included on this line include but are not limited to all of the following:

- Other income reported on the estate's or trust's federal form 1041, line 8.
- Depreciation adjustment from the IA 4562A and the IA 4562B. Include both schedules with the return.
- Like-kind exchange(s) of personal property. See the IA 8824 Worksheet.
- Nonconformity adjustments from the IA 101. Include the form with the return.
- If the estate or trust is also a member of another pass-through entity, enter the estate's or trust's distributive share of Iowa modifications furnished by the pass-through entity. This is the amount reported on your IA

1065 K-1, line 16(a), or on your IA 1120S K-1, line 15(a).

- Any adjustment from IA 163 Interest Expense Adjustment resulting in a reduction to income. Include IA 163 with your return.
- Any adjustment from 2020 IA 163A Interest Expense Carryforward Adjustment. Include IA 163A with your return.
- Other adjustments to income required or allowed under Iowa law.

Deductions (Lines 10-21)

IA 1041 Schedule D must be completed to itemize interest expenses, taxes, and other allowable deductions.

Line 11: Taxes:

- **Iowa income taxes:** Iowa income taxes are not deductible in computing Iowa taxable income of an estate or trust. To the extent Iowa income taxes were deducted in computing federal taxable income, they must be added back here. See Iowa Code § 422.4(16). If the estate or trust is subject to the \$10,000 state and local tax deduction limitation in IRC § 164(b)(6), the estate or trust must recalculate its limitation for Iowa purposes by excluding Iowa income taxes. If the exclusion of Iowa income taxes would not cause the estate's or trust's deduction for taxes to fall below the limitation, no addback of Iowa income taxes is required on the Iowa return.

Example: Trust X incurs a total of \$15,000 in eligible state and local taxes, including \$4,000 of Iowa income taxes. After applying the IRC § 164(b)(6) limitation, the trust claims a \$10,000 deduction for taxes for federal purposes on the federal form 1041, line 11. For Iowa purposes, the exclusion of the \$4,000 in Iowa income tax from the deduction limitation would not cause trust X's deduction for taxes to fall below the \$10,000 limitation (\$15,000 - \$4,000 = \$11,000), so no Iowa addback is required.

- **Federal income taxes:** Subtract federal income tax paid by the estate or trust during the tax year. Add federal income tax refunds received during the tax year. For more information, see Iowa Admin. Code r. 701—41.3, and the detailed instructions online for the IA 1040, lines 27, 28, and 31.

Lines 23 Compute Tax from Rate Schedule**Taxable Income**

Over	But Not Over		Tax Rate	Of Excess Over
\$0	\$1,666	\$0	+ (.33%	X \$0)
\$1,666	\$3,332	\$5.50	+ (.67%	X \$1,666)
\$3,332	\$6,664	\$16.66	+ (2.25%	X \$3,332)
\$6,664	\$14,994	\$91.63	+ (4.14%	X \$6,664)
\$14,994	\$24,990	\$436.49	+ (5.63%	X \$14,994)
\$24,990	\$33,320	\$999.26	+ (5.96%	X \$24,990)
\$33,320	\$49,980	\$1,495.73	+ (6.25%	X \$33,320)
\$49,980	\$74,970	\$2,536.98	+ (7.44%	X \$49,980)
\$74,970		\$4,396.24	+ (8.53%	X \$74,970)

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 28: 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 IA 1041 Schedule C. These are nonrefundable credits; the amount claimed on Line 28 must be limited not to exceed the amount of tax on Line 26 minus the personal exemption credit on Line 27.

Lines 12 – 15 generally: Except as described below for estate tax return administrative expenses, the amounts included on lines 12-15 should be the same as reported on the federal form 1041, lines 12-15.

Estate tax return administrative expenses. If an estate or trust that is required to file a federal estate tax return incurs administrative expenses that would have been an allowable deduction in computing federal taxable income of the estate or trust for the tax year except that the deduction was disallowed under IRC § 642(g) (deductions allowable for estate tax purposes), the estate or trust may deduct those administrative expenses for Iowa tax purposes on lines 12-15. See Iowa Admin. Code r. 701—89.8(8)“g”(3).

Line 18: 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 20: Qualified Business Income Deduction. Iowa only allows a deduction for 25% (0.25) of the Qualified Business Income (QBI) deduction provided under IRC § 199A(a), and the Domestic Production Activities Deduction (DPAD) allocated from an agricultural or horticultural cooperative as provided under IRC § 199A(g). For more information, see Iowa Code § 422.4(16).

If the estate or trust deducts these amounts on the federal form 1041, line 20, include 25% of such amounts on this line.

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

Lines 23 through 33 are to be completed for both resident and nonresident estates and trusts. Nonresident estates and trusts must also complete IA 1041 Schedule C using special instructions provided on that form.

Line 29 Other Nonrefundable Credits

Enter the Part I Total of the IA 148 Tax Credits Schedule. The amount claimed on Line 29 must be limited not to exceed the amount of tax on Line 26, minus the personal exemption credit on Line 27 and the out-of-state or nonresident credit on Line 28. 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 inside and outside Iowa.

Line 32: 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 32. 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 33: Other Refundable Credits. Enter the Part II Total of the IA 148 Iowa Tax Credits Schedule.

Tax Due

Line 35: 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: Penalty and Interest**Line 37a: Penalties**

Failure to Timely File a Return: If the return is filed after the original due date of the return and less than 90% of the correct amount of tax was paid by the original due date, multiply the unpaid tax by 5% (10% for returns due before July 1, 2021) and enter that amount on line 37a. This penalty is in addition to any penalty for failure to timely pay the tax due, as described below, except for returns due before July 1, 2021. If you are subject to both penalties, add this penalty amount to the amount calculated below and enter the sum on line 37a.

Failure to Timely Pay the Tax Due: A penalty of 5% must be added to the tax due if less than 90% of the correct amount of tax was paid by the original due date of the return. Multiply the unpaid tax by 5% and enter that amount on line 37a. This penalty is in addition to any penalty for failure to timely file, as described above, except for returns due before July 1, 2021. If you are subject to both penalties, add this penalty amount to the amount calculated above and enter the sum on line 37a.

Audit or Examination Deficiency: A penalty of 5% will be added to the unpaid tax if the Department discovers an underpayment during an audit or examination.

Fraud: A penalty of 75% will be added to the fraudulent claim or unpaid tax for fraudulent claims or willful failure to file a return.

Waivers: Penalties can be waived under limited circumstances, as described in Iowa Code section 421.27. Complete and submit a Penalty Waiver Request form (78-629) to request a penalty be waived.

Line 38: Amount Due. Your check or money order for the amount due should be made payable to “Iowa Department of Revenue.” The check or money order and Fiduciary Income Tax Payment Voucher (63-007) should be included with the Iowa fiduciary tax return. However, if you are amending to report a federal centralized partnership audit change and you have elected to pay the tax due on the owners’ behalf, you must complete the IA 103, include the amount due from the IA 103 on this line, and then submit the IA 103 with payment to the address listed on the IA 103.

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 IA 1041 Schedule C. Iowa-source income in Column A of IA 1041 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 (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 the IA 1040ES.