Iowa Department of REVENUE

2020 Iowa Adjusted Current Earnings (ACE) Worksheet

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1. Enter the amount from IA 4626, line 4 .... 1. ________
2. ACE Depreciation
   a. AMT depreciation .... 2a. ________
   b. ACE depreciation
      1. Post-1993 property .... 2b(1). ________
      2. Post-1989, pre-1994 property .... 2b(2). ________
      3. Pre-1990 MACRS property .... 2b(3). ________
      4. Pre-1990 original ACRS property .... 2b(4). ________
      5. Property described in IRC sections (168(f)(1) through (4) .... 2b(5). ________
      6. Other property .... 2b(6). ________
      7. Total ACE depreciation. Add lines 2b(1) through 2b(6) .... 2b(7). ________
   c. ACE depreciation adjustment. Subtract line 2b(7) from line 2a .... 2c. ________
3. Inclusion in ACE of items included in earnings and profits (E&P):
   a. Tax-exempt interest income .... 3a. ________
   b. Death benefits from life insurance contracts .... 3b. ________
   c. All other distributions from life insurance contracts (including surrenders) .... 3c. ________
   d. Inside buildup of undistributed income in life insurance contracts .... 3d. ________
   e. Other items (see instructions) .... 3e. ________
   f. Total increase to ACE from inclusion in ACE of items included in E&P. Add lines 3a through 3e .... 3f. ________
4. Disallowance of items not deductible from E&P:
   a. Certain dividends received .... 4a. ________
   b. Dividends paid on certain preferred stock of public utilities that are deductible under IRC section 247 (as affected by P.L. 113-295, Div. A, IRC section 221(a)(41)(A), Dec. 19, 2014, 128 Stat. 4043) .... 4b. ________
   c. Dividends paid to an ESOP (see instructions) .... 4c. ________
   d. Nonpatronage dividends (see instructions) .... 4d. ________
   e. Other items (see instructions) .... 4e. ________
   f. Total increase to ACE because of disallowance of items not deductible from E&P. Add lines 4a through 4e .... 4f. ________
5. Other adjustments based on rules for figuring E&P:
   a. Intangible drilling costs .... 5a. ________
   b. Circulation expenditures .... 5b. ________
   c. Organizational expenditures .... 5c. ________
   d. LIFO inventory adjustments .... 5d. ________
   e. Installment sales .... 5e. ________
   f. Total other E&P adjustments. Combine lines 5a through 5e .... 5f. ________
6. Disallowance of loss on exchange of debt pools .... 6. ________
7. Acquisition expenses of life insurance companies for qualified foreign contracts .... 7. ________
8. Depletion .... 8. ________
9. Basis adjustments in determining gain or loss from sale or exchange of pre-1994 property .... 9. ________
10. Combine lines 1, 2c, 3f, 4f, and 5f through 9 .... 10. ________

11. Subtract the amount on line 1 from line 10. If line 1 exceeds line 10, enter the difference as a negative amount .... 11. __________
12. Multiply line 11 by 75% (0.75). Enter the result as a positive amount. .... 12. __________
13. Enter the excess, if any, of the corporation's total increases in AMTI from prior year ACE adjustments over its total reductions in AMTI from prior year ACE adjustments .... 13. __________
14. If line 11 is greater than zero, enter the amount from line 12. If line 11 is less than zero, enter the smaller amount from line 12 or line 13 as a negative amount. Enter the amount on IA 4626, line 5 .... 14. __________

For purposes of this form and instructions, the term Internal Revenue Code (IRC) refers to Title 26 of U.S. Code in effect on December 21, 2017, and any Regulations that implement the IRC in effect on that date, unless otherwise specified. The term Regulations refers to title 26 of the Code of Federal Regulations (CFR), unless otherwise specified.

Treatment of Certain Ownership Changes

If a corporation with a net unrealized built-in loss (within the meaning of IRC section 382(h)) undergoes an ownership change (within the meaning of IRC section 382(g) and Regulations section 1.56(g)-1(k)(2)), refigure the adjusted basis of each asset of the corporation (immediately after the ownership change). The new adjusted basis of each asset is its proportionate share (based on respective fair market values) of the fair market value of the corporation's assets (determined under IRC section 382(h)) immediately before the ownership change.

To determine if the corporation has a net unrealized built-in loss immediately before an ownership change, use the aggregate adjusted basis of its assets used for figuring its ACE. Also, use these new adjusted bases for all future ACE calculations (such as depreciation and gain or loss on disposition of an asset).

Line 2a. AMT depreciation. Generally, the amount entered on this line is the depreciation the corporation claimed for the regular tax (IA 4562A, line 5, modified by the AMT depreciation adjustments reported on lines 2a and 2m of IA 4626.

Line 2b(1). Post-1993 property. For property placed in service after 1993, the ACE depreciation is the same as the AMT depreciation. Therefore, enter on line 2b(1) the same depreciation expense you included on line 2a of this worksheet for such property.

Line 2b(2). Post-1989, pre-1994 property. For property placed in service in a tax year that began after 1989 and before 1994, use the ADS depreciation described in IRC section 168(g). However, for property (a) placed in service in a tax year that began after 1989 and (b) described in IRC sections 168(f)(1) through (4), use the same depreciation claimed for the regular tax and enter it on line 2b(5).

Line 2b(3). Pre-1990 MACRS property. For MACRS property generally placed in service after 1986 and in a tax year that began before 1990, figure depreciation by using the property's AMT adjusted basis as of the close of the last tax year beginning before 1990 and by using the straight line method over the remainder of the recovery period for the property under ADS. In doing so, use the convention that would have applied to the property under IRC section 168(d). For more information (including an example that illustrates the application of these rules), see Regulations IRC section 1.56(g)-1(b)(2).

Line 2b(4). Pre-1990 original ACRS property. For ACRS property generally placed in service in a tax year that began after 1980 and before 1987, figure depreciation by using the property's regular tax adjusted basis as of the close of the last tax year beginning before 1990 and by using the straight line method over the remainder of the recovery period for the property under ADS. In doing so, use the convention that would have applied to the property under IRC section 168(d) (without regard to IRC section 168(d)(3)). For more information (including an example that illustrates the application of these rules), see Regulations section 1.56(g)-1(b)(3).

Line 2b(5). Property described in IRC sections 168(f)(1) through (4). For this property, use the regular tax depreciation, regardless of when the property was placed in service.

Line 2b(5) takes priority over lines 2b(1), 2b(2), 2b(3), and 2b(4). For property that is described in IRC sections 168(f)(1) through (4), use line 2b(5) instead of the line 2b(1), 2b(2), 2b(3), or 2b(4) that would otherwise apply.

Line 2b(6). Other property. Use the regular tax depreciation for (a) property placed in service before 1981 and (b) property placed in service after 1980, in a tax year that began before 1990, that is excluded from MACRS by IRC section 168(f)(5)(A)(i) or original ACRS by IRC section 168(e)(4), as in effect before the Tax Reform Act of 1986.

Line 2c. Total ACE depreciation. Subtract line 2b(7) from line 2a and enter the result on line 2c. If line 2b(7) exceeds line 2a, enter the difference as a negative amount**.**

Line 3. Inclusion in ACE of Items Included in Earnings and Profits (E&P)

In general, any income item that is not taken into account (see below) in determining the corporation's pre-adjustment AMTI but is taken into account in determining its E&P must be included in ACE. Any such income item can be reduced by all items related to that income item that would be deductible when figuring pre-adjustment AMTI if the income items to which they relate were included in the corporation's pre-adjustment AMTI for the tax year. Examples of these income items and the adjustments that relate to them include:

- Interest income from tax-exempt obligations excluded under IRC section 103 minus any costs incurred in carrying these tax-exempt obligations and
- Proceeds of life insurance contracts excluded under IRC section 101 minus the basis in the contract for purposes of ACE.

An income item is considered taken into account without regard to the timing of its inclusion in a corporation's pre-adjustment AMTI or its E&P. Only income items that are permanently excluded from pre-adjustment AMTI are included in ACE. An income item will not be considered taken into account merely because the proceeds from that item might eventually be reflected in the pre-adjustment AMTI of another taxpayer (for example, that of a shareholder) on the liquidation or disposal of a business.

Exceptions. Do not make an adjustment for the following.

- Any income from discharge of indebtedness excluded from gross income under IRC section 108 (or the corresponding provision of prior law).
- For an insurance company taxed under IRC section 831(b), any amount not included in gross investment income (as defined in IRC section 834(b)).
- Any special subsidy payment for prescription drug plans excluded from gross income under IRC section 139A.
- Any qualified shipping income excluded under IRC section 1357.
- Tax-exempt interest on certain housing bonds issued after July 30, 2008, excluded under IRC section 57(a)(5)(C)(iii).
- Tax-exempt interest on certain private activity bonds issued in 2009 and 2010. Special rules apply to refunding bonds. See IRC section 56(g)(4)(B)(iv).

Line 3d. Include in ACE the income on life insurance contracts (as determined under IRC section 7702(g)) for the tax year minus the part of any premium attributable to insurance coverage.

Line 3e. Internal Revenue Service Regulations IRC sections 1.56(g)-1(c)(6)(iii) through (ix) contain a partial list of relevant items. Do not include any adjustment related to the E&P effects of any charitable contribution.

Line 4. Disallowance of Items Not Deductible From E&P

Generally, no deduction is allowed when figuring ACE for items not taken into account (see below) in figuring E&P for the tax year. These amounts increase ACE if they are deductible in figuring pre-adjustment AMTI (that is, they would be positive adjustments).

However, there are exceptions. Do not add back:

- Any deduction allowable under IRC section 243 or 245 for any dividend that qualifies for a 100% dividends-received deduction under IRC section 243(a), 245(b), or 245(c);
- Any dividend received from a 20%-owned corporation (see IRC section 243(c)(2)), but only if the dividend is from income of the paying corporation that is subject to federal income tax; and
- Any allowable domestic production activities deduction under IRC section 199.

Special rules apply to certain dividends received by certain cooperatives. An item is considered taken into account without regard to the timing of its deductibility in figuring pre-adjustment AMTI or E&P. Therefore, only deduction items that are permanently disallowed in figuring E&P are disallowed in figuring ACE.

Items for which no adjustment is necessary: Generally, no deduction is allowed for an item in figuring ACE if the item is not deductible in figuring pre-adjustment AMTI (even if the item is deductible in figuring E&P). The only exceptions to this general rule are the related reductions to an income item described in the second sentence of the instructions for line 3 above.

Deductions that are not allowed in figuring ACE include:

- Capital losses that exceed capital gains;
- Bribes, fines, and penalties disallowed under IRC section 162;
- Charitable contributions that exceed the limitations of IRC section 170;
- Meals and entertainment expenses that exceed the limitations of IRC section 274;
- Federal taxes disallowed under IRC section 275; and
- Golden parachute payments that exceed the limitation of IRC section 280G.

Line 4c. Enter dividends paid to an ESOP that are deductible under IRC section 404(k)

Line 4d. Enter nonpatronage dividends that are paid and deductible under IRC section 1382(c)

Line 4e. Internal Revenue Service Regulations IRC sections 1.56(g)-1(d)(3)(i) and (ii) contain a partial list of relevant items. Do not include any adjustment related to the E&P effects of any charitable contribution.

Line 5. Other Adjustments

Line 5a. Except as noted below, in figuring ACE, determine the deduction for intangible drilling costs under IRC section 312(n)(2)(A).

Subtract the ACE expense (if any) from the AMT expense (used to figure line 2m of Form IA 4626) and enter the result on line 5a. If the ACE expense exceeds the AMT amount, enter the result as a negative amount.

Exception. The above rule does not apply to amounts paid or incurred for any oil or gas well by corporations that are independent producers (that is, not integrated oil companies as defined in IRC section 291(b)(4)). If this exception applies, do not enter an amount on line 5a for oil and gas wells.

Line 5b. When figuring ACE, the current year deduction for circulation expenditures under IRC section 173 does not apply. Therefore, treat circulation expenditures for ACE using the case law that existed before IRC section 173 was enacted.

Subtract the ACE expense (if any) from the regular tax expense (for a personal holding company, from the AMT expense used to figure line 2d of IA 4626) and enter the result on line 5b. If the ACE expense exceeds the regular tax amount (for a personal holding company, the AMT amount), enter the result as a negative amount.

Do not make this adjustment for expenditures for which the corporation elected the optional 3-year write-off under IRC section 59(e) for the regular tax.

Line 5c. When figuring ACE, the amortization provisions of IRC section 248 do not apply. Therefore, charge all organizational expenditures to a capital account and do not take them into account when figuring ACE until the corporation is sold or otherwise disposed of. Enter on line 5c all amortization deductions for organizational expenditures that were taken for the regular tax during the tax year.

Line 5d. The LIFO inventory adjustments provided in IRC section 312(n) (4) apply in figuring ACE. See Regulations IRC section 1.56(g)-1(f)(3).

Line 5e. For any installment sale in a tax year that began after 1989, a corporation generally cannot use the installment method to figure ACE. However, it may use the installment method for the applicable percentage (as determined under IRC section 453A) of the gain from any installment sale to which IRC section 453A(a)(1) applies.

Subtract the installment sale income reported for AMT from the ACE income from the sales and enter the result on line 5e. If the ACE income from the sales is less than the AMT amount, enter the difference as a negative amount.

Line 6. Disallowance of Loss on Exchange of Debt Pools

When figuring ACE, a corporation may not recognize any loss on the exchange of any pool of debt obligations for any other pool of debt obligations having substantially the same effective interest rates and maturities. Add back (that is, enter as a positive adjustment) on line 6 any such loss to the extent recognized for the regular tax.

Line 7. Acquisition Expenses of Life Insurance Companies for Qualified Foreign Contracts

For ACE, acquisition expenses of life insurance companies for qualified foreign contracts (as defined in IRC section 807(e)(4) without regard to the treatment of reinsurance contract rules of IRC section 848(e)(5)) must be capitalized and amortized by applying the treatment generally required under generally accepted accounting principles (and as if this rule applied to such contracts for all applicable tax years). Subtract the ACE expense (if any) from the regular tax expense and enter the result on line 7. If the ACE expense is more than the regular tax expense, enter the result as a negative amount.

Line 8. Depletion

When figuring ACE, the allowance for depletion for any property placed in service in a tax year that began after 1989 generally must be determined under the cost depletion method.

Subtract the ACE expense (if any) from the AMT expense (used to figure line 2l of IA 4626) and enter the result on line 8 of the worksheet. If the ACE expense is more than the AMT amount, enter the result as a negative amount.

Exception. Independent oil and gas producers and royalty owners that figured their regular tax depletion deduction under IRC section 613A(c) do not have an adjustment for ACE purposes.

Line 9. Basis Adjustments in Determining Gain or Loss from Sale or Exchange of Pre-1994 Property

If, during the tax year, the corporation disposed of property for which it is making (or previously made) any of the ACE adjustments, refigure the property's adjusted basis for ACE. Then refigure the property's gain or loss.

Enter the difference between the AMT gain or loss (used to figure line 2e of IA 4626) and the ACE gain or loss. Enter the difference as a negative amount if any of the following apply.

- The ACE gain is less than the AMT gain.
- The ACE loss is more than the AMT loss.
- The corporation had an ACE loss and an AMT gain.

Line 10

Combine lines 1, 2c, 3f, 4f, and 5f through 9 from this worksheet. To the extent included, deduct any interest from state and municipal securities and regulated investment companies exempt from federal income tax, net of any amortization of any discount or premium, IRC section 936 Puerto Rican dividends, or FSC dividends.