2021 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 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 (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 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 (FOB) 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.

Iowa Resident Out-of-State Tax Credit
Iowa Code § 422.8 allows Iowa residents to claim the Iowa Out-of-State Tax Credit for certain entity-level income taxes paid by a pass-through entity (partnership, S corporation, fiduciary) to another state, local jurisdiction, or foreign country on income also subject to tax in Iowa, but only if the partner receives a supplemental schedule from the partnership reporting certain information. If the partnership paid entity-level income tax (including composite return income tax) to another qualifying jurisdiction on the distributive share of the partner’s income also subject to tax in Iowa, provide a supplemental schedule to the partner with the IA Schedule K-1 that identifies the jurisdiction and the partner’s pro-rata share of the income, tax liability, and tax paid in that jurisdiction. A partner will not be permitted to claim an Out-of-State Tax Credit on the IA 130 for that income tax unless the partner receives that supplemental schedule from the partnership and submits a copy with the IA 1040.
If the partnership is itself an owner of another pass-through entity that paid entity-level income tax to another qualifying jurisdiction on income also subject to tax in Iowa, and the partnership receives a schedule from that pass-through entity identifying the jurisdiction and the partnership’s pro-rata share of the income, income tax liability, and income tax paid in that jurisdiction, the partnership may in turn report that income tax to its partners on a supplemental schedule with the partner’s IA Schedule K-1. The supplemental schedule must identify the jurisdiction and pass-through entity that paid the income tax, and the partner’s pro-rata share of that income, income tax liability, and income tax paid. When reporting this other pass-through entity’s income tax to its partners, the partnership must reduce the income tax by the amount of any credit available from that other jurisdiction to the partnership related to the income tax payment. The partnership may not report this tax to its partners as described above if the partnership does not receive the appropriate schedule from the other pass-through entity. The partnership should keep the schedule it received from the other pass-through entity because the Department may request it of the resident partner in order to prove the credit claimed on the IA 130. The resident partner is responsible for providing documentation of the out-of-state tax paid by a pass-through entity at the Department’s request.

Example: Partnership X earns $2,000 of income in State A, which imposes an entity-level income tax directly on the partnership. Partnership X pays $100 of income tax to State A. Partnership X is owned 50% by Partnership Y, and provides a schedule to Partnership Y indicating that Y’s pro-rata share of the income taxed by State A is $1,000, and Y’s pro-rata share of the income tax imposed by and paid to State A is $50. Partnership Y does not receive a credit in state A for its share of the tax paid by Partnership X. Partnership Y is owned 50% by individual Z, a resident of Iowa. Partnership Y provides a schedule to individual Z indicating that Z’s pro-rata share of Partnership X’s income taxed by State A is $500, and Z’s pro-rata share of Partnership X’s income tax imposed by and paid to State A is $25. Individual Z may use the income and tax amounts reported on that schedule in completing Z’s IA 130 Iowa Out-of-State Tax Credit Schedule, provided that the $500 of income identified on the schedule is also reported on individual Z’s IA 1040 return and is taxed by Iowa.

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 May 2, 2022. There is an automatic 6-month extension of time to file after May 2, 2022. No extension request form is required. Mail returns to Income Tax Return Processing, Iowa Department of Revenue, Hoover State Office Building, Des Moines, Iowa 50306-9187. 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 (tax.iowa.gov).

Amended Returns
If an amended federal return or a federal administrative adjustment request was filed, the taxpayer must file an amended Iowa return and include the IA 102 Amended Return Schedule.
Use the 1065 to file and check the “Amended Return” box.

**Federal Centralized Partnership Audit Regime**

Prior to tax year 2018, federal partnership audit adjustments and tax collection was generally administered at the partner level. For tax years 2018 and forward, the IRS makes audit adjustments and generally collects taxes at the partnership level for partnerships subject to the federal centralized partnership audit regime. If a partnership under this regime is audited by the IRS resulting in adjustments that affect Iowa tax liability, the partnership and its direct and indirect partners must follow certain procedures and timelines for reporting the adjustments to Iowa and paying the resulting Iowa tax, even if the partnership or partners were not responsible for filing a federal amended return or paying additional federal tax. Similar procedures and timelines also apply to an affected partnership and its direct and indirect partners for amendments to returns requested on a centralized administrative adjustment request (AAR). For more information, see the IA 102 Amended Return Schedule, the IA 103 Pass-through Election to Pay Return and Voucher, and the instructions below for the IA 1065, line 10. See also Iowa Code § 422.25A.

**Iowa Pass-through Entity Audits**

For tax year 2020 and forward, any audit of a pass-through entity (partnership, S corporation, fiduciary) by the Department will be conducted solely at the pass-through entity level through the entity’s state representative. If a pass-through entity is audited by the Department resulting in adjustments to Iowa tax liability, the pass-through entity and its owners must follow certain procedures and timelines for reporting the adjustments to Iowa and paying any resulting Iowa tax. For more information, see the IA 102 Amended Return Schedule, the IA 103 Pass-through Election to Pay Return and Voucher, and the instructions below for the IA 1065, line 10. See also Iowa Code §§ 422.25B and 422.25C. These provisions may be applied to a tax year prior to 2020 if the Department, the pass-through entity, and the pass-through entity owners agree.

For Additional Information

Contact Taxpayer Services at 515-281-3114 or 800-367-3388 8 a.m. - 4:30 p.m. CT or email 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 Schedules 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. Partnerships without a physical location in Iowa should enter 00. A list of county numbers can be found on the Department website (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 (irs.gov).
- Enter the state partnership representative and phone number. This is the person the partnership is appointing as the state partnership representative for purposes of Iowa Code § 422.25B. This should be the same as the partnership’s federal partnership representative unless the partnership is designating a different person for Iowa purposes.
- 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 Schedules 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 is 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 1065 Schedule K income that are required by Iowa Code section 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.

Conformity with the Internal Revenue Code (IRC)—For tax years beginning on or after January 1, 2020, Iowa has adopted rolling conformity, meaning the state will automatically conform to any changes made to the IRC, except as specified by Iowa law.

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 Admin Code Rs. 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 Iowa additions furnished by the other partnership, estate, or trust. Consult the following forms and worksheets:
• IA 4562A—Section 179 expensing and depreciation adjustments
• IA 8824 Like-Kind Exchange Worksheet. For tax years 2020 or later, this worksheet should only be used to compute related party transactions and federal installment sale gains related to like-kind exchanges of personal property completed prior to tax year 2020.
• IA 101 Nonconformity Adjustments
• IA 163 Interest Expense Adjustment

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 Admin Code Rs. 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 Iowa 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 Admin Code Rs. 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 Admin Code Rs. 701-40.21)

• To the extent included in the partnership’s taxable income on line 1 of the IA 1065, the amount of any qualifying COVID-19 grant meeting the requirements of Iowa Admin Code r. 701—40.86.

• To the extent included in the partnership’s taxable income on line 1 of the IA 1065, the amount of a federal, state, or local grant provided to a communications service provider during the tax year, if the grant was used to install broadband service in targeted service areas at or above the download and upload speeds.

Also consult the following forms and worksheets:

• IA 4562A—Section 179 expensing and depreciation adjustments

• IA 8824 Like-Kind Exchange Worksheet. For tax years 2020 or later, this worksheet should only be used to compute related party transactions and federal installment sale gains related to like-kind exchanges of personal property completed prior to tax year 2020.

• IA 101 Nonconformity Adjustments

• IA 163 Interest Expense Adjustment

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

**Line 10: Election to Pay after Audit** – Under certain circumstances, a partnership may elect to pay on its partners’ behalf the Iowa tax, penalty, and interest resulting from a federal centralized partnership audit or an Iowa pass-through entity audit. The election and the payment calculation are made on the IA 103 Pass-through Election to Pay Return and Voucher. If you are making an election to pay on the IA 103 related to the audit adjustments reported on this return, report on this line the total amount of tax, penalty, and interest you calculated and paid with your IA 103. When an election to pay on your partners’ behalf is made, do not issue amended IA 1065 Schedule K-1s to your partners, but instead notify the partner of all of the following in a separate letter or schedule: (1) identify the partner’s distributive share of the audit adjustments, (2) notify the partner that you have elected to pay the resulting Iowa tax, penalty, and interest on their behalf, and (3) notify the partner that the partner shall not claim any deduction, credit, or refund for the amount paid by the partnership, and the partner may not include the amount paid on the partner’s Iowa return in any manner.

**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 Admin Code Rs. 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. 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. In addition, individual nonresident partners must use the apportioned totals from column (c) when completing the Iowa 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. In the case of a disregarded entity, enter the applicable information of the beneficial owner.
- 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. If the partnership is amending for a federal centralized partnership audit change or an Iowa pass-through entity audit change and is electing to pay with an IA 103, do not reissue the K-1. Instead, the partnership will need to send a letter to the partner as described on the instructions above for the IA 1065, line 10. 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.
- Answer yes or no to the question of whether the partnership is including additional attachments with the K-1.
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.

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): Enter the same amount as shown on the federal Schedule K-1.

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. If this entry is a negative amount, enter it on line 24 of the IA 126.

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, 2022. 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.