

INSTRUCTIONS FOR FILING 2009 PARTNERSHIP RETURN

WHO MUST FILE:

Every partnership deriving income from property owned within this state or from a business, trade, profession, or occupation carried on within the state and every partnership organized under the provisions of chapter 486A of the Iowa Code having a place of business in the state must file a return of income, regardless of the amount of income or loss and regardless of the residence of the partners. 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.

TAX YEARS:

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, irrespective of the fact that partners may be reporting their incomes on a different year basis.

PARTNERSHIP NAME, ADDRESS, FEDERAL EMPLOYER IDENTIFICATION NUMBER (FEIN):

Type or print the partnership name and business address in the name/address box. If the partnership has a federal identification number, the number **must** be entered in the box to the right of the name/address box. If the partnership has applied for but not yet received a number, enter "applied for" and inform the Department of the number when received. To apply for a FEIN, complete federal application form SS-4 and submit it to the Internal Revenue Service office address listed in the form's instructions. Or, you can obtain a federal number over the phone by completing a federal application form SS-4 and then calling the IRS at (800)829-4933 weekdays.

DISTRIBUTION OF PARTNERSHIP INCOME:

A partnership, as such, is not a taxable entity in Iowa, but the members of a partnership are taxed upon their individual shares whether actually distributed to them or not. If the partnership's operation results in a net loss, the loss may be deducted by the partners in the same proportion that net income would have been payable to the 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. Residents of Iowa who are partners in a partnership must report on their IA 1040s all items of income or loss shown on their federal partnership K-1(s) just as these items are reported on their federal 1040. Net modifications from Part II, column 5 of the Iowa partnership return would be reported on each partner's IA 1040 as either "other income" on line 14 if the modifications are a positive amount, or as "other adjustments" on line 24 if the modifications are a negative amount.

NONRESIDENT PARTNERS:

Every *nonresident* and spouse, if any, who has \$1,000 or more in net income from property located in this state or from any business, trade, profession, or occupation carried on within this state and who with his or her spouse, if any, has all-source income of \$13,500 or more (\$9,000 or more for single individuals) must file an Iowa income tax return. An individual 65 or older with \$1,000 or more of Iowa net income who with his or her spouse, if any, has all-source income over \$32,000 (\$24,000 for single individuals) must file an Iowa income tax return. Nonresidents compute their tax on all-source net income less federal tax and standard or itemized deductions. The tax computed is then prorated based on Iowa-source net income to all-source net income.

Nonresidents will enter each item of federal K-1 income or loss and their share of any all-source modifications on their IA 1040 individual returns just as Iowa residents do.

APPORTIONMENT OF INCOME:

Iowa has its own Schedule K-1 for nonresidents that will show how much of the federal K-1 income is taxable to Iowa. If the partnership is doing business wholly within Iowa then 100% of the Schedule K-1 income will be taxed by Iowa. **If the partnership is doing business both within and without Iowa, then each item of federal K-1 income or loss and any modifications will be apportioned to Iowa using the Iowa single factor business activity ratio; no method of "separate accounting" is allowed.** Those apportioned amounts will be reported on the IA 126. The computation of this ratio must be shown on a separate schedule.

If a nonresident's partnership 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 property is considered made in the state if the property is shipped or delivered to a point within this state, regardless of the f.o.b. point or other conditions of the sale.

If the nonresident partner'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 nonresident partner a copy of the Iowa Nonresident K-1, which will show how the Iowa portion of the partnership income is apportioned to each nonresident partner.

TAX PREFERENCE ITEMS:

If the partnership had items of tax preference or minimum tax adjustment items, those items 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 minimum tax on the items of tax preference or adjustments allocated to them.

MOTOR FUEL TAX CREDIT:

If the partnership does not have a motor fuel tax refund permit or canceled its refund permit within the first 30 days of the year, a motor fuel 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 motor fuel credit is claimed, complete and attach the following forms to the IA 1065:

- 1) IA 4136 Computation of Iowa Motor Fuel Tax Credit.
- 2) Supplemental schedule showing the method and allocation of the gallons and credit to each partner.

Copies of the above forms must be given to the partners and attached to their income tax returns.

OTHER TAX CREDITS:

Partners may qualify for various tax credits to be passed through to them by the partnership. The partnership must complete the appropriate form(s) to compute these credits (for example: IA 133; IA 3468) and attach them to the IA 1065. The partnership is not required to complete an IA 148 Tax Credits Schedule. Each partner should be given a schedule showing the amount of credit(s) passed through to them.

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, 2010. For an IA 1065, there is an automatic six-month extension of time to file after April 30, 2010. There is no extension request form required. Returns are to be mailed to: Income Tax Return Processing, Iowa Department of Revenue, Hoover State Office Building, Des Moines, Iowa 50319-0120.

Each partner required to file an Iowa individual income tax return has six months after the original due date of the return to file the return without a late filing penalty only if 90% of the partner's Iowa income tax liability was paid by the original due date.

SIGNATURE:

The return must be signed by a partner or member. The return will not be considered valid unless this requirement is met.

COMPOSITE FILING:

A partnership may file an Iowa individual income composite tax return and pay any tax due on the behalf of nonresident partners. See Form IA1040C for further information.

SPECIFIC INSTRUCTIONS

PART I - MODIFICATION OF PARTNERSHIP INCOME

Line 1 - Net together items of income or loss on the federal Schedule K, and those deductions on the federal Schedule K that do not qualify as itemized deductions and enter that net figure on this line.

Line 2 - Enter the total 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.

Line 3 - If a partnership is a member of another partnership or the beneficiary of an estate or trust, enter on this line the partnership's distributive share of ADDITIONS furnished you by such other partnership, estate, or trust.

Section 179 Expensing / Bonus Depreciation:

Iowa has not adopted the federal law increasing the section 179 expensing allowance for tax years beginning on or after January 1, 2009. The Iowa section 179 expense allowance for 2009 is \$133,000.

For any assets placed in service after September 10, 2001, but before May 6, 2003, Iowa continues to disallow the 30% bonus depreciation provisions of the federal Job Creation and Worker Assistance Act of 2002. In addition, Iowa does not allow the 50% bonus depreciation provisions for **assets acquired after December 31, 2007, and before January 1, 2010.** Form IA 4562A must be filed for these assets to account for the difference between Iowa and federal depreciation.

Line 4 - Total of Lines 2 and 3.

Line 5 - 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.

Line 6 - If a partnership is 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 you by such other partnership or estate or trust.

Federal Work Opportunity Tax Credit, Employer Social Security Credit for Tips, and Alcohol Fuel Credit. Enter the amount of credits allowable for the tax year to the extent that the credit increased federal partnership income.

Additional Deduction for Wages Paid to Certain Individuals. Qualifying businesses may also take an additional deduction of wages paid to new employees who qualify as persons with disabilities or as ex-offenders.

Line 7 - Add lines 5 and 6.

Line 8 - Subtract line 7 from line 4. This could result in either a positive or negative number.

Line 9 - Add lines 1 and 8. This is the adjusted all-source income of the partnership.

PART II - PARTNER'S SHARE OF MODIFICATIONS AND INCOME

Part II shows each partner's share of modifications, of all-source income, and of apportioned income. You must provide complete information for each partner in an acceptable format. For your convenience, Schedule 41-034 is provided on our Web site. For Iowa residents the share of all-source income (column 6) and apportioned income (column 7) will be the same. If the partnership is doing business wholly within Iowa, columns 6 and 7 will be the same for all the partners. But if the partnership is doing business both within and without Iowa, then column 7 will be apportioned to Iowa for nonresident partners based on a single factor business activity ratio of Iowa sales over total sales.

Column 1 - Enter the name and address of each partner.

Column 2 - Enter the letter R if the partner is an Iowa resident or the letter N if the partner is not an Iowa resident.

Column 3 - Enter the correct Social Security Number or FEIN of each partner. Do NOT enter the FEIN of the partnership filing the return.

Column 4 - Enter the percentage figure under the partnership agreement representing each partner's distributive share of income, gain, loss, deduction, or credit. In the event the partnership agreement provides for a specific distribution of certain modifications which differs from that used to apportion income or loss generally, then attach an explanation.

Column 5 - Multiply line 8 of Part I above by the partner's percent interest in column 4 and enter the result here.

Column 6 - Multiply line 9 of Part I above by the partner's percent interest in column 4 and enter the result here. If line 9 includes any guaranteed payments to a partner, allocate the guaranteed payments directly to that partner and multiply only the balance of line 9 by each partner's percent interest.

Column 7 - For nonresident partners of partnerships doing business within and without Iowa, multiply the amount in column 6 by the Iowa single factor business activity ratio and enter the result here. For nonresident partners of partnerships doing business wholly within Iowa and for Iowa resident partners enter the same figure as is in column 6.

Totals - Total columns 5, 6, and 7.

PART III - PARTNERSHIP INCOME FOR PRIOR YEARS

Enter the total partnership income attributable to Iowa for 2006, 2007, and 2008. For prior-year returns this would be analogous to the total of Part II, column 7 of this return.

PART IV - FEDERAL PARTNERSHIP RETURN

Part IV requires that a copy of the federal partnership return, form 1065, including a Schedule K-1 for each partner and all other supporting schedules, be attached to this form.

PREPARER'S IDENTIFICATION NUMBER

Enter the preparer's SSN, FEIN, or PTIN.

CONTACTING THE DEPARTMENT

For further information, contact Taxpayer Services, Iowa Department of Revenue, PO Box 10457, Des Moines, Iowa 50306. Des Moines area or from out of state, call (515) 281-3114. Elsewhere in Iowa or the Rock Island/Moline or Omaha areas, call toll free at 800-367-3388.

Forms and publications: www.state.ia.us/tax/

E-mail: idr@iowa.gov