Iowa Fiduciary Instructions for 2009

General Instructions

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 death meets the Iowa resident or nonresident filing requirements. Note: 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 fiduciary 1041 return and appropriate schedules must accompany each 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.

Note: The final fiduciary return serves as an application for a certificate of acquittance. **You must check the boxes on the front of the return requesting an income tax certificate of acquittance and indicating whether an IA 706 will be filed. If no IA 706 will be filed, please send a copy of the probate inventory or listing of assets to expedite processing.**

Also Note: Expenses of administration, executors' commissions, attorney fees, etc., are not allowable as an income tax deduction on form IA 1041 if they were allowed as a deduction in computing the taxable estate for federal estate tax purposes.

Preparer's ID Number

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

When to File

The return with payment is due within four calendar months after the end of the taxable 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

Mail the fiduciary return to:

Fiduciary Return Processing, Iowa Department of Revenue, P.O. Box 10467, Des Moines, Iowa 50306

PENALTY

Penalty for Failure to Timely File a Return

A penalty of 10% will be added to the tax due for failure to timely file a return if the return is not remitted by the due date and at least 90% of the correct tax is not paid by the due date. The penalty can only be waived under limited circumstances.

Penalty for Failure to Timely Pay the Tax Due

A penalty of 5% will be added to the tax due if the return was filed timely but at least 90% of the correct tax is not paid by the due date. The penalty can only be waived under limited circumstances.

Where the failure to file penalty and the failure to pay penalty are applicable, the failure to file penalty will take precedence.

Federal Tax Audits

The Department has six months to make a determination of the correct tax after receipt of sufficient written notice of the final disposition of any matter between the taxpayer and the Internal Revenue Service. A copy of the federal document showing the final disposition of federal adjustments must be attached to the notice in order to begin the 6-month period.

To constitute notice "sufficient to inform the Department" the notice must be in writing, supplied under separate cover and not as a part of the return for the current period, and have the federal documents previously mentioned attached.

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.

Return Identification

Enter the beginning and ending dates if the return is for a fiscal year. Also, enter the Department of Revenue number, if one is assigned, and the FEIN.

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 2. Interest. Although exempt from federal tax, interest on state and municipal securities is taxable to Iowa with the following exceptions:

Iowa Board of Regents Bonds
Iowa College Super Savings Plans Bonds
Iowa Municipality Urban Renewal Bonds
Low Income Housing Bonds
Warehouse Project Revenue Bonds
Sewage Treatment Works Revenue Bonds
Beginning Farmer Loan Program Bonds
Underground Storage Tank Fund Revenue Bonds
Soil Conservation District Bonds
Aviation Authority Bonds
E911 Emergency Telephone Service Program Bonds
County Health Center Bonds
Iowa Rural Water District Revenue Bonds
Quad Cities Interstate Metropolitan Authority Bonds
Municipal Investment Recovery Program Bonds
Local Government Flood Damage Program
Prison Infrastructure Revenue Bonds
Iowa Utilities Board and Consumer Advocate Building Bonds
Honey Creek Premier Destination Park Tax-Exempt Bonds
Appropriation Bonds

Line 6. Reportable Capital Gain and Deduction. On line 6, report 100% of the net gain or loss from transactions reported on Schedule D, federal form 1041. Iowa follows the federal loss guidelines.

Deductions (Lines 10-22)

Schedule D, side 2, must be completed to itemize interest expenses, taxes, and other allowable deductions.

Line 19. Distribution 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.

Trusts making an accumulation distribution must attach a copy of federal Schedule J, reporting the amount of Iowa income tax distributed to each beneficiary.

Resident Computed Tax (Lines 23-31)

Lines 23 through 31 are to be completed for resident estates and trusts. Nonresidents complete Schedule C using special instructions provided on this page.

Line 23. Tax is computed from the tax rate schedule on page 2 of the return.

Line 24. Iowa Lump-Sum Tax. If federal form 4972 (5-year/10-year averaging method) was used to compute federal tax on all or part of a lump-sum distribution, enter 25% of the federal tax on form 4972. A copy of the federal form 4972 must be attached.

Line 25. Iowa Minimum Tax. The Iowa minimum tax is a tax imposed on items not subject to regular income tax, classed as "Tax Preference Items." You may be subject to the Iowa minimum tax even if you were not subject to the federal minimum tax. For complete information on the Iowa minimum tax, see form IA 6251.

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 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 tax. Nonresident estates and trusts are not eligible for an out-of-state credit.

Line 29. 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 30. 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 to each beneficiary 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 30. Other Credits. Enter the total of credits from the IA 148 Tax Credits Schedule. **The IA 148 Tax Credits Schedule must be attached if there is an entry on this line.**

Line 31. Add the total credits from lines 27 through 30 and enter here.

Tax Due

Line 32. Tax Liability. Residents subtract line 31 from line 26. Nonresidents enter the amount from line 19, Schedule C.

Line 33. Extending the Time to File the Iowa Fiduciary Return. If 90% of the correct amount due is paid by the 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 due date. If additional payment is necessary in order to meet the 90% requirement, you must pay using the Iowa Fiduciary Tax Payment Voucher (63-007). Extension form 60-027 is used for inheritance tax purposes only.

Line 34. Refund. If line 33 is greater than line 32, enter the difference. This is the amount to be refunded to you.

Line 35. Amount Due. If line 33 is less than line 32, enter the difference and pay this amount in full with your return. Your check for the amount due should be made out to "Treasurer, State of Iowa." The check and Fiduciary Tax Payment Voucher (63-007) should be stapled to the left side of the IA 1041 tax return.

Nonresident Instructions

Completion of Fiduciary Return. Nonresidents should list only Iowa-source income and deductions on page 1 of the return. Iowa-source income 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.

Schedule C Computation of Nonresident Tax. Schedule C computes Iowa tax liability for nonresident estates and trusts.

Lines 1-7. Computation of federal adjusted income. If this is an Electing Small Business Trust (ESBT), then line 1 is to include the ESBT income.

Lines 8-10. Computation of tax.

Line 11. Nonresident Percentage is computed by dividing the amount on line 22, page 1, by the amount on line 7, Schedule C.

Line 12. Multiply line 10 by the percentage on line 11 to compute tax after proration.

Line 13. Iowa Lump-Sum Tax. If a lump-sum distribution reported on federal form 4972 was received as a result of Iowa earnings, enter 25% of the tax from federal form 4972 and attach Schedule 4972.

Line 14. Iowa Minimum Tax. If the fiduciary has tax preference items attributable to Iowa sources, complete form IA 6251 and enter the resulting Iowa minimum tax.

Line 15. Balance. Add lines 12, 13, and 14.

Line 16. Motor Fuel Tax Credit. Enter the amount of Motor Fuel Tax Credit from line 7 of form IA 4136.

Line 17. Other Credits. See instructions for line 30 to determine total other credits to be entered on this line.

Line 18. Total Credits. Add lines 16 and 17.

Line 19. Taxability. Subtract line 18 from line 15. Enter the balance on line 19 and on line 32 of page 1.

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 form IA 1040ES.