Iowa Department of Revenue
www.state.ia.us/tax

2010 IA 1120S - Instructions

Iowa Income Tax Return for S Corporations

General Instructions and Information

WHO MUST FILE

Every S corporation doing business in Iowa, deriving income from sources within Iowa, or which is domiciled in Iowa, must file an Iowa S corporation return. S corporations, interest charge domestic international sales corporations, and foreign sales corporations should file form IA 1120S. If the S corporation is a financial institution, it must also file form IA 1120F. **Please note:** A non-Iowa S corporation should not file *only* because one or more of its shareholders are Iowa residents or because the S corporation is registered with the Iowa Secretary of State.

WHEN AND WHERE TO FILE

The IA 1120S is due on or before the last day of the fourth month after the close of the taxable year. If you owe tax per line 11, Part III, an automatic extension of up to six months to file will be granted **only if** at least 90% of the total tax liability is paid by the due date of the return. The 6-month extension also applies to all filers with zero balance due.

Mail returns to: Corporation Tax Return Processing, Iowa Department of Revenue, PO Box 10468, Des Moines IA 50306-0468.

COMPOSITE FILING

S corporations may elect by the due date to file an Iowa individual income composite tax return (IA 1040C) and pay any tax due on behalf of nonresident shareholders. See chapter 48 of the Iowa Administrative Rules for further information or contact Taxpayer Services at: 1-800-367-3388 (Iowa, Omaha, Rock Island, Moline) or 515-281-3114 (Des Moines, out of state) or e-mail idr@iowa.gov

MOTOR FUEL TAX CREDIT

If the S corporation 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 shareholder on his or her individual income tax return. If a motor fuel credit is claimed, complete the IA 4136 and attach it to the IA 1120S. Each shareholder's share is recorded in Part III of the shareholder's IA K-1.

OTHER TAX CREDITS

Shareholders may qualify for various tax credits to be passed through to them by the S corporation. The S corporation must complete the appropriate form(s) to compute these credits (for example: IA 133; IA 3468) and attach them to the IA 1120S. The S corporation is not required to complete an IA 148 Tax Credits Schedule. Each shareholder's share of Iowa tax credits is recorded in Part III of the shareholder's IA K-1.

AMENDED RETURNS

If an amended federal return was filed for a prior period, the taxpayer must file an amended Iowa return. Use IA 1120S to file and check the "Amended Return" box. The IA 1120S is not to be used for sales tax or withholding credit.

FOR ADDITONAL INFORMATION

Call Taxpayer Services at 1-800-367-3388 (Iowa, Omaha, Rock Island, Moline) or 515-281-3114 (Des Moines, out of state) or e-mail idr@iowa.gov

Completing the Return

Fill in all requested information that applies to your S corporation.

Fiscal-year or short-period filers: Enter your beginning and ending dates here.

Calendar-year filers may leave this section blank.

Part I: Corporation Name and Address

Fill in all requested information that applies to your S corporation.

Enter the business code number provided by the Internal Revenue Service (IRS) for the specific industry group corresponding to the S corporation's primary business activity.

Enter the number of the (Iowa) county that is the commercial domicile or principle place of business of this S corporation. Enter 00 if the S corporation does not have a physical location in Iowa.

Enter the total number of shareholders.

If this is a first or final return, check all boxes that apply to the S corporation. If you checked "other," enter a short one or two word description.

Part II: Corporation Information

Complete all requested information.

Part III: Modification of Corporation Income

This schedule is to show those modifications or adjustments to federal Schedule K income as required by chapter 53 of the Iowa Administrative Code and to show the total modified net income from the S corporation.

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. Enter that net figure on this line.

Line 2: Enter the 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.

Line 3: Enter total of other additions to Iowa income and attach schedule. Iowa did not adopt the 30% federal bonus depreciation provisions for assets placed in service on or after September 11, 2001, but before May 6, 2003, nor the 50% bonus depreciation provisions for assets acquired after December 31, 2007, and before January 1, 2011; therefore, an adjustment must be computed on form IA 4562A. Also include any amount of Iowa corporation income tax deducted in computing federal net income.

Line 4: Add lines 2 and 3.

Line 5: Enter 50% of federal income tax paid or accrued, including federal tax paid on built-in gains or passive investment income.

Line 6: Enter the amount of interest and dividends from federal securities as shown on your federal return.

Line 7: Enter total of other reductions from your federal income which are not taxable for Iowa purposes and attach schedule.

Line 8: Add lines 5, 6, and 7.

Line 9: Subtract line 8 from line 4. This can result in either a positive or a negative amount.

Line 10: Add line 9 and line 1.

Line 11: S corporations that are subject to tax on built-in gains under section 1374 of the Internal Revenue Code or passive investment income under section 1375 of the Internal Revenue Code are subject to Iowa corporation income tax on this income to the extent received from business carried on in this state or from sources in this state.

The starting point for computing the Iowa tax on built-in gains or passive investment income is the amount of built-in gains or passive investment income subject to federal tax after considering the federal income limitation.

For tax years beginning on or after January 1, 2008, an adjustment is made to the preceding amounts for 50% of federal income tax and/or Iowa corporation income tax deducted in computing the federal built-in gains tax. The allocation and apportionment rules of chapter 701-54 apply if the S corporation is carrying on business within and without the state of Iowa.

Any net operating loss carryforward arising in a taxable year for which the corporation was a C corporation is allowed as a deduction against the net recognized built-in gains or passive investment income of the S corporation for the taxable year. For purposes of determining the amount of any such loss which may be carried to any of the 15 subsequent taxable years (20 years for tax years beginning after August 5, 1997) after the year of the net operating loss, the amount of the net recognized built-in gain or passive investment income is treated as taxable income. The amount of Iowa taxable built-in gains or passive investment income is subject to tax at the same rates as C corporation income (6%, 8%, 10%, 12%).

Under $25,000, multiply by 6%.

$25,000 to $100,000, multiply by 8% and subtract $500

$100,000 to $250,000, multiply by 10% and subtract $2,500.

Over $250,000, multiply by 12% and subtract $7,500.

Except for estimated and other advance tax payments, and any credit carryforward under Iowa Code section 422.33 arising in a taxable year for which the corporation was a C corporation, no credits are allowed against the built-in gains or passive investment income tax.

Refund Requests

If a refund is due because estimated payments exceed the tax due, you must request a refund by **separate letter**. Send to Iowa Department of Revenue, PO Box 10456, Des Moines IA 50306-0456.

Part IV: Business Activity Ratio (BAR)

If an S corporation is doing business wholly within Iowa:
Skip lines 1-12 and enter 100.00 on line 13.

If the S corporation 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 S corporation's unitary trade or business, a part of which is conducted within Iowa. Business income must be apportioned to Iowa by means of the business activity ratio. Investment income may at the taxpayer's election be included in the computation of the business activity ratio. The taxpayer will have elected whether to include investment income in the computation of the business activity ratio for that 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:

Accounts receivable interest is to be included in the numerator to the extent allocable to Iowa.

Other interest, net dividends, capital and ordinary gains, and royalties from intangibles must be included in the numerator if the commercial domicile is in Iowa. **All investment income that is business income,** including capital gains or losses, must be included in the computation of the business activity ratio 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. See Iowa Rule 54.2(3) for clarification.

Capital and ordinary gains or losses, or rent and royalties from real property must be included in the numerator if the property is located in Iowa.

For a taxpayer first apportioning income, the inclusion of investment income determined to be business income in the business activity ratio of that year's initial return will be binding on all subsequent years' returns. The election to include business investment income in the business activity ratio can later be changed only with permission of the Director of the Iowa Department of Revenue.

Part V: Information from Prior Period Iowa Return

Enter the requested information from the Iowa return for previous tax period.

Federal S Corporation Return

A copy of the federal corporation return, form 1120S, and all other supporting schedules, (not including the federal K-1) must be attached to this form.

WHO MUST SIGN THE RETURN

The corporation return must be signed by the president or other duly authorized officer.

Instructions for IA 1120S Schedule K-1

Shareholder's Share of Income, Deductions, & Modifications

The Iowa 1120S K-1 shows each shareholder's share of modifications, all-source income, Iowa apportioned income, and Iowa tax credits. You must provide complete information for each shareholder in an acceptable format. For your convenience, forms IA 1120S and IA 1120S Schedule K-1 are provided on our Web site.

Individual shareholders: When completing your individual IA 1040, report the column (a) items. In addition, individual nonresident shareholders report amounts from column (c) on Iowa form IA 126, "Iowa Nonresident and Part-year Resident Credit." If the S corporation does business within and without Iowa, the business activity ratio in column (b) must be provided to each Iowa resident shareholder for purposes of computing the S Corporation Apportionment Credit, form IA 134, if they elect that option.

Part I: Corporation Information

Enter name and FEIN of S corporation on each IA K-1 form.

Shareholder information

- Enter name, Social Security Number, or FEIN, and address of each shareholder.
- Check the amended box if the K-1 is part of an amended 1120S return.
- Check the appropriate box for the shareholder's entity type.
- Check either the resident shareholder or nonresident shareholder box, based on the shareholder's current address.
- Enter shareholder's percentage of ownership in the S corporation. Carry this percentage to 6 decimal places if needed.
- Enter the S corporation's Iowa receipts, as reported on page 1, Part IV, line 12, column (A) of the IA 1120S*.
- Enter the S corporation's total receipts, as reported on page 1, Part IV, line 12, column (B) of the IA 1120S*.

  ** If BAR is 100%, enter the Gross Receipts from line 1a, page 1 of the federal 1120S.*
- Enter the S corporation's BAR from page 1, Part IV, line 13 of the IA 1120S.

PART II: SHAREHOLDER'S PRO RATA SHARE ITEMS:

Column (a), lines 1 through 14(f):

Enter the same amounts as shown on the federal K-1. These figures are reportable as part of income/loss on your IA 1040.

Leave Columns (b) & (c) blank for resident shareholders.

Column (b), lines 1 through 14(f):

For **nonresident** shareholders only, enter the S corporation's single factor Iowa Business Activity Ratio (BAR). **The BAR in column (b) must be applied equally to each line item in column (a); no method of "separate accounting" is allowed.**

Column (c), lines 1 through 14(f):

For **nonresident** shareholders 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 14(f) schedule: Show name and amount for each item reported on line 14(f).

Line 15(a): Enter the shareholder's all-source modifications. This figure is equal to the S corporation's all-source modifications multiplied by the shareholder's ownership percentage. **Individual shareholders:** If this figure is a positive amount, report it on line 14 of your IA 1040. If this figure is a negative amount, report it on line 24 of your IA 1040.

Line 15(b): For **nonresident** shareholders only, enter the Iowa BAR.

Line 15(c): For **nonresident** shareholders only, multiply line 15(a) by the percentage on line 15(b) and enter here. **Nonresident Shareholders:** If this entry is a positive amount, also enter it on line 14 of your IA 126 form. If this entry is a negative amount, enter it on line 24 of your IA 126 form.

Part III: Shareholder's Portion of IA Credits/Withholding: If the S corporation submitted **Iowa withholding** for the shareholder, enter it in the current-year amount column on the first line of the schedule. If none, enter zero.

For all other credits, enter the tax credit name in the first column. If you received the credit from an Iowa governmental agency, enter your certificate number in the second column. Enter the shareholder's share of the current-year amount in the third column.