

2021 IA 1120S Income Tax Return for S Corporations

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 an IA 1120S. If the S corporation is a financial institution, it must also file an IA 1120F. 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 on built-in gains or passive investment income 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 Return Processing, Iowa Department of Revenue, PO Box 10468, Des Moines IA 50306-0468.

Composite Filing

An S corporation may file an Iowa composite individual income tax return and pay any tax due on behalf of nonresident shareholders. See IA 1040C for further information.

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 shareholder receives a supplemental schedule from the S corporation reporting certain information. If the S corporation paid entity-level income tax (including composite return income tax) to another qualifying jurisdiction on the distributive share of the shareholder's income also subject to tax in Iowa, provide a supplemental schedule to the shareholder with the IA Schedule K-1 that identifies the jurisdiction and the shareholder's pro-rata share of the

income, tax liability, and tax paid in that jurisdiction. A shareholder will not be permitted to claim an out-of-state tax credit on the IA 130 for that income tax unless the shareholder receives that supplemental schedule from the S corporation and submits a copy with the IA 1040.

If the S corporation 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 S corporation receives a schedule from that pass-through entity identifying the jurisdiction and the S corporation's pro-rata share of the income, income tax liability, and income tax paid in that jurisdiction, the S corporation may in turn report that income tax to its shareholders on a supplemental schedule with the shareholder's IA Schedule K-1. The supplemental schedule must identify the jurisdiction and pass-through entity that paid the income tax, and the shareholder'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 S corporation must reduce the income tax by the amount of any credit available from that other jurisdiction to the S corporation related to the income tax payment. The S corporation may not report this tax to its shareholders as described above if the S corporation does not receive the appropriate schedule from the other pass-through entity. The S corporation should keep the schedule it received from the other pass-through entity because the Department may request it of the resident shareholder in order to prove the credit claimed on the IA 130. The resident shareholder 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 Y, an S corporation, and provides a schedule to 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. Y does not receive a credit in state A for its share of the tax paid by Partnership X. Y is owned 50% by

individual Z, a resident of Iowa. 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 S corporation 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 shareholder on his or her individual income tax return. If a Fuel Tax Credit is claimed, complete the IA 4136 and include it with the IA 1120S. Each shareholder's portion is recorded in Part III of the shareholder's IA Schedule K-1.

Other Tax Credits

Shareholders may qualify for various tax credits passed through to them by the S corporation. The S corporation must complete the appropriate form(s), where applicable, to compute these credits (for example: IA 128, IA 137) and include them with the IA 1120S. The S corporation is not required to complete an IA 148 Tax Credits Schedule. Each shareholder's portion of Iowa tax credits must be recorded in Part III of the shareholder's IA Schedule K-1, including certificate numbers. Shareholders must complete an IA 148 Tax Credits Schedule to claim credits, reporting the S corporation in Part IV as the pass-through entity.

Amended Returns

If an amended federal return was filed, the taxpayer must file an amended Iowa return and include the IA 102 Amended Return Schedule. Use the IA 1120S to file and check the "Amended Return" box. The IA 1120S cannot be used for sales tax or withholding credits/refunds.

Federal Centralized Partnership Audit Regime

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 the S corporation was a direct or indirect partner in a partnership that is audited by the IRS resulting in adjustments that affect Iowa tax liability, the S corporation must follow certain procedures and timelines for reporting those adjustments to Iowa, even if the S corporation or shareholders 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 1120S, line 11. 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 1120S, line 11. 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

Completing the Return

Fiscal year or short period filers: Enter the beginning and ending dates here. Calendar year filers may leave this section blank.

Part I: Corporation Name and Address

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 available on the IRS website (irs.gov).

Enter the Iowa county number of the commercial domicile or principal place of business. Enter 00 if the S corporation does not have a physical location in Iowa. A list of county numbers can be found on the Department's website (tax.iowa.gov).

Enter the state S corporation representative and phone number. This is the person the S corporation is appointing as the state representative for purposes of Iowa Code § 422.25B.

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 III: Modification of Corporation Income

This schedule is to document those modifications or adjustments to federal 1120S Schedule K income that are required by Iowa Code section 422.35 and chapter 53 of the Iowa Administrative Code, in order to show the total modified net income from the S corporation.

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 Net Income – Net together items of income or loss on the federal 1120S Schedule K and those deductions on the federal 1120S Schedule K that do not qualify as itemized deductions. Enter that net figure on this line.

Line 2: Interest and Dividends Exempt from Federal Tax – 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. (Iowa Code § 422.35(2); Iowa Admin Code Rs. 701-53.6)

Line 3: Other Additions – Enter the total amount of other additions to S corporation income required under Iowa law. Include a schedule describing the type and amount of each addition. If the S corporation is also a member of another pass-through entity, enter the S corporation's distributive share of Iowa additions furnished by the other pass-through entity. 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: 50% of Federal Tax – Enter 50% of federal income tax paid or accrued to the extent the payment is for a tax year beginning prior to January 1, 2021, less any federal refunds received during the current tax period to the extent the refund was for federal taxes deducted on an Iowa return in a year beginning prior to January 1, 2021. This includes federal tax paid on built-in gains or passive investment income. (Iowa Code § 422.35(4); Iowa Admin Code Rs. 701-53.12)

Line 6: Federal Securities Interest – Enter the amount of interest and dividends from federal securities as shown on the federal return. (Iowa Code § 422.35(1); Iowa Admin Code Rs. 701-53.5)

Line 7: Other Reductions – Enter total amount of other reductions to S corporation income required or allowed under Iowa law. Include a schedule describing the type and amount of each reduction. If the S corporation is also a member of another pass-through entity, enter on this line the S corporation's distributive share of the Iowa reductions furnished by the other pass-through entity. 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 S corporation income. (Iowa Code § 422.35(5), (7), (17); Iowa Admin Code Rs. 701-53.10, 53.20) Additional deduction for wages paid to new employees who qualify as persons with disabilities or as ex-offenders. (Iowa Code § 422.35(6), (6A); Iowa Admin Code Rs. 701-53.11)

- To the extent included in the S corporation's taxable income on line 1 of the IA 1120S, the amount of any qualifying COVID-19 grant meeting the requirements of Iowa Admin Code r. 701—53.30.
- To the extent included in the S corporation's taxable income on line 1 of the IA 1120S, 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 9: Net Modifications – Subtract line 8 from line 4. This can result in either a positive or a negative amount.

Line 11: Include on this line the S corporation's tax on built-in gains or passive investment income, and the tax resulting from an election to pay following an audit. See below for a description of both.

Tax on Built-in Gains or Passive Investment Income – 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, 2019, Iowa will use a 5-year recognition period for the built-in gain tax (except for certain installment sales), which is the same as federal law as modified by Public Law 114-113 (PATH Act).

For tax years beginning on or after January 1, 2016, but prior to January 1, 2019, Iowa was generally not conformed to the federal PATH Act and therefore used a 10-year recognition period, so S corporations that realized a built-in gain after the 5-year federal recognition period but within the 10-year Iowa recognition period were subject to the built-in gains tax for Iowa purposes.

No 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 Iowa Administrative Code 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 (5%, 9%, 9.8%).

\$100,000 or less, multiply by 5.5%.

\$100,001 to \$250,000, multiply by 9% and subtract \$3,500.

Over \$250,000, multiply by 9.8% and subtract \$5,500.

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. For more information on the Iowa built-in gains tax, visit tax.iowa.gov. Pay online on the Department's website (tax.iowa.gov), or make checks payable to Iowa Department of Revenue.

Tax Resulting from Election to Pay Following Audit—Under certain circumstances, an S corporation may elect to pay on its shareholders' 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 shareholders' behalf is made, do not issue amended IA 1120S Schedule K-1s to your shareholders, but instead notify the shareholder of all of the following in a separate letter or schedule: (1) identify the shareholder's distributive share of the audit adjustments, (2) notify the shareholder that you have elected to pay the resulting tax, penalty, and interest on their behalf, and (3) notify the shareholder that the shareholder shall not claim any deduction, credit, or refund for the amount paid by the S corporation, and the shareholder may not include the amount paid on the shareholder's Iowa return in any manner.

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 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 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 if the property is 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.

For a taxpayer first apportioning income, the inclusion of investment income determined to be business income in the BAR of that year's initial return will be binding on all subsequent years' returns. The election to include business investment income in the BAR 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 1120S return for previous tax period.

Federal S Corporation Return

A copy of the federal corporation return, 1120S, and all other supporting schedules, (not including

the federal Schedules K-1) must be included with this form.

Signature

The corporation return must be signed by the president or other duly authorized officer. The return will not be considered valid unless this requirement is met.

Instructions for IA 1120S Schedule K-1

Shareholder's Share of Income & Deductions, & Modifications

The Iowa 1120S Schedule 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. IA 1120S and IA 1120S Schedule K-1 are provided on our website.

Individual shareholders: When completing your 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 shareholders must use the apportioned amounts from column (c) when completing the IA 126, "Iowa Nonresident and Part-year Resident Credit." If the S corporation does business within and without Iowa, the BAR in column (b) must be provided to each Iowa resident shareholder for purposes of computing the S Corporation Apportionment Credit, IA 134, if they elect that option.

Part I: Corporation Information

Enter name and Federal Employer Identification Number (FEIN) of S corporation on each IA Schedule K-1 form.

Shareholder Information

- Enter name, Social Security Number (SSN), or FEIN, and address of each shareholder. In the case of a disregarded entity, enter the applicable information of the beneficial owner.
- Check either the resident shareholder or nonresident shareholder box, based on the shareholder's current address.

Check the amended box if the Schedule K-1 is part of an amended 1120S return. If the S corporation 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 S corporation will need to send a letter to the shareholder as described on the instructions above for the IA 1120S, line 11.

- Check the appropriate box for the shareholder's entity type.
- 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.
- Answer yes or no to the question of whether the S corporation is including additional attachments with the K-1.

Part II: Shareholder's Pro Rata Share Items Column (a), lines 1 through 14(f):

Enter the same amounts as shown on the federal Schedule K-1.

Resident shareholders complete column (a) only.

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. Please contact the Department for more information on the BAR for investment S corporations.

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

Line 14(f): Include a schedule showing the 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. If this entry is a negative amount, enter it on line 24 of your IA 126.

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.

If paying a nonresident an Iowa nonwage payment, Iowa income tax must be withheld at a rate of 5% of the payment amount. The S corporation 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 an S corporation is filing an IA 1040C return on behalf of its nonresident shareholders no withholding or estimated payments are required.

Franchise Tax Credit

If the shareholder is eligible to claim the Franchise Tax Credit, you must include the following information with the IA Schedule K-1 to allow shareholders to complete an IA 147.

- The modified federal income from Part III, Line 10 of the 1120S
- The financial institution's total tax liability, line 15 of the 1120F
- The financial institution's tax credit claims, line 16 of the 1120F
- The shareholder's ownership percentage

For all other credits, enter the tax credit name in the first column. For awarded credits, enter your certificate number in the second column. Enter the shareholder's share of the current year amount in the third column.