

Tax Year 2011

# **eFile HANDBOOK**

For Tax Preparers of  
Iowa Individual Income Tax Returns



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# **IOWA ELECTRONIC FILING PROGRAM**

## **INTRODUCTION**

Federal/State eFile is a cooperative tax-filing effort between the Internal Revenue Service (IRS) and Iowa. Authorized IRS *e-file* providers may file both federal and state returns electronically for clients. The federal and state individual income tax returns may be filed electronically in a single transmission or as two separate transmissions. A transmission of the state return without transmitting the federal return is referred to as a *State Only return*. A copy of the federal return should always be included with the state return.

Iowa plans to begin offering individual income Modernized e-File (MeF) in Spring 2012. Continue to check back for updates.

## **BENEFITS OF eFILING**

- Accuracy
- Simplicity
- Fast
- Refund Speed

Thanks to our trading partners, 78% of Iowa income tax returns were eFiled last year. Thank you!

## **RESOURCES**

The following resources are available to assist you:

- **Federal publication 1345**, *Handbook for Authorized IRS eFile Providers of Individual Income Tax Returns*.
- **Federal publication 4557**, *Safeguarding Taxpayer Data, A Guide for Your Business*
- **Iowa Department of Revenue Administrative Rules** for electronic filing of Iowa individual income tax returns, 701-39.13(422).
- **Subscribe to eLists**.  
Get tax news by e-mail <http://elists.idrf.state.ia.us/scripts/wa.exe>
- **Status of Iowa refund**
  - [www.iowa.gov/tax](http://www.iowa.gov/tax), select *Check Refund Status* link under “Individuals”
  - 515-281-4966/1-800-572-3944
- **Questions about eFiling?**  
ERO Support: Leann Boswell, 515-281-4220; [leann.boswell@iowa.gov](mailto:leann.boswell@iowa.gov)
- **ERO missing acknowledgments?**  
Contact your software company or transmitter.
- **Federal Assistance**  
Federal e-Help Desk: 866-255-0654, Mon – Fri, 6:30am to 6pm, CT  
Practitioner Priority Service: 866-860-4259, Mon – Fri, 8am to 8pm, local time

## **2011 IOWA INDIVIDUAL INCOME TAX UPDATES**

Changes for TY2011 became effective with the enactment of Senate File 512 and Senate File 533. This legislation couples Iowa tax provisions with federal provisions up to January 1, 2011, and is retroactive to January 1, 2010, in several areas. For details, please see: <http://www.iowa.gov/tax/news/newsnotices.html>

### **Taxable IRA Distributions, Line 8:**

Enter the amount of taxable IRA distributions as shown on your federal return. Taxpayers age 70 1/2 and older can distribute up to \$100,000 from their individual retirement account to certain charitable organizations without including the distribution in gross income.

### **Taxable Social Security Benefits, Line 13:**

Iowa is implementing a gradual phase-out of tax on Social Security income. For tax year 2011, the phase-out percentage is 67%.

### **Other Income, Line 14:**

Iowa did not adopt the federal 100% bonus depreciation provisions passed by Congress for assets acquired during 2011. The adjustment for depreciation should be made on form IA 4562A. Also complete form IA 4562B.

### **Other Adjustments, Line 24:**

- College Savings Iowa or Iowa Advisor 529 Plan; the deductible amount for tax year 2011 cannot exceed \$2,865 per beneficiary
- Effective with the enactment of Senate File 512, Iowa has coupled with the deductions for educator expenses and tuition & fees.
- Members of the armed forces, armed forces military reserve and the National Guard in an active duty status can exclude pay received from the federal government for military service performed.
- Taxpayers who elect not to amend their 2010 return for educator expenses for out-of-pocket expenses, tuition and fees deduction, or section 179 expensing can claim these deductions for 2011.
- Do not include any deduction for the small business health insurance tax credit that was not allowed as a deduction on the federal return.

### **Federal Income Tax Refund, Line 27:**

Do not include any part of the refund received from Earned Income Tax Credit, additional child tax credit, first-time homebuyer credit, refundable education credit, adoption tax credit, or making work pay and government retiree credits.

### **Schedule A:**

You can elect either the itemized deduction for state income taxes (other than Iowa) or the deduction for state sales/use tax. The deduction for state sales/use tax is only available if you deducted state sales/use tax as an itemized deduction on the federal return.

Certain high-income taxpayers do not have to reduce their itemized deductions for 2011.

If one spouse itemizes deductions, then both spouses must itemize, even if separate Iowa returns are filed.

**Iowa Earned Income Tax Credit, Line 65:**

This credit is 7% of the federal earned income tax credit (EITC). The Iowa EITC is refundable.

**REMINDERS**

Iowa has adopted federal Internal Revenue Service Code changes regarding the determination of income for tax years beginning on or after January 1, 2010.

IDR will not deposit a refund to an account outside the United States.

Federal line references contained in these instructions are based on the draft federal forms available at the time of printing.

Form IA 148 Tax Credits Schedules must be completed when a credit is claimed on lines 53 or 66 of the Iowa return. The complete list of credits, new or modified ones for 2011 are online in the expanded instructions.

Expanded instructions are located at: [www.iowa.gov/tax](http://www.iowa.gov/tax)

**ELECTRONIC FILING CALENDAR**

January 17, 2012	Begin transmitting live eFile returns
April 30, 2012	Last date for timely-filed Iowa returns
October 14, 2012	Last date for transmitting late eFile returns
October 20, 2012	Last date for retransmission of rejected returns

**PARTICIPATION IN THE IOWA FEDERAL/STATE eFILE****Application process**

To apply for Federal/State eFile, contact the Internal Revenue Service. A separate state application is not required for practitioners, EROs, or transmitters.

**Testing**

Transmitters and EROs are not required to test with IDR; however, the Department will accept and review any test returns received.

**Advertising standards**

The IRS has created an electronic filing logo to give a consistent image to the Federal/State eFile. The logo may be used by the IRS, by participating states, and by accepted participants who wish to identify themselves as offering electronic filing. See sample graphic for Iowa below.



## FILING AN IOWA ELECTRONIC RETURN

The Iowa Electronic Filing program currently provides these filing capabilities:

- The filing of most refund, zero balance, and balance due returns.
- The filing of resident, part-year, and nonresident returns.
- The filing of returns claiming out-of-state tax credit.
- The filing of **"States Only" (SO)** returns. Iowa requires copies of relevant federal forms and schedules, even when filing SO.
- Direct deposit of Iowa refunds.
- Direct debit (ePay) through the eFile & Pay system at the Iowa Department of Revenue Web site or with the income tax return.
- eFile Iowa returns from home through the federal/state online program.
- Filing through the IRS' extended filing period.
- Filing a return for deceased taxpayer or spouse.

### Accepted Iowa returns and schedules:

1. **IA 1040** - Iowa Individual Income Tax Long Form, including those reporting lump-sum taxes on line 44.
2. **IA 1040 Schedule A** - Iowa Itemized Deductions – required when e-filing if deductions on IA 1040 line 41 are itemized.
3. **IA 1040 Schedule B** - Interest and Dividend Income – required when e-filing if the Iowa taxable interest reported on IA 1040 line 2 or Iowa taxable dividends reported on IA 1040 line 3 exceeds the threshold of \$1,500.
4. **IA 126** - Iowa Nonresident and Part-year Resident Credit – required if taxpayer is a nonresident of Iowa with income from Iowa sources or taxpayer is a part-year Iowa resident, even if the IA 126 line 33 results in zero.
5. **IA 130** - Iowa Out-of-state Credit Computation - required of full-year Iowa residents or part-year Iowa residents if any income earned while an Iowa resident was also taxed by another state or foreign country, even if IA 130 Section I line 7 (or Section II line 10) results in zero.
6. **IA 4136** - Computation of Iowa Motor Fuel Tax Credit - required of eligible individuals claiming tax credit on their IA 1040 for fuel on which Iowa fuel tax was paid and used off-highway in an unlicensed vehicle.
7. **IA 2210** - Underpayment of Estimated Tax by Individuals - required if IA 2210 line 8 is \$200 or greater, even if line 19 results in zero. (If the total from line 8 is less than \$200, the taxpayer is not required to pay estimated tax and, therefore, cannot have underpaid estimated tax.)
8. **IA 2210 Schedule AI** - Annualized Income Installment Method - required if filing IA 2210 and using the Annualized Income Method to derive the required installment amounts (IA 2210 Line 12).
9. **IA 2210F** - Underpayment of Estimated Tax by Farmers and Fishers - required of taxpayers with farm or fishing income if IA 2210F line 8 is \$200 or greater, even if line 15 results in zero. (If the total from line 8 is less than \$200, the taxpayer is not required to pay estimated tax and, therefore, cannot have underpaid estimated tax.)
10. **IA 6251** - Iowa Minimum Tax Computation – Computation required if taxpayer had tax preference items or adjustments during the tax year, submission required if the result on IA 6251 line 29 is greater than zero.
11. **IA 4562A** - Iowa Depreciation Adjustment Schedule - required if the taxpayer claims the federal “bonus depreciation” deduction for acquired assets or if the taxpayer disposes of

“bonus depreciation” property during the tax year, and Iowa depreciation adjustments were made to the property in previous tax years, even if the result of PART III line 5 is zero.

12. **IA 4562B** – Iowa Depreciation Accumulated Adjustment Schedule – used to record cumulative effect of Bonus Depreciation Adjustment on IA 4562A.
13. **IA 148** -Tax Credits Schedule – required if taxpayer(s) claims a credit on line 53 or 66 of the IA 1040.
14. **IA 128** – Iowa Research Activities Credit - required if taxpayer(s) claims the credit on line 66 of the IA 1040.
15. **IA 128S** –Iowa Alternative Simplified Research Activities Credit - required if taxpayer(s) claims the credit on line 66 of the IA 1040.
16. **IA 134** – S Corp Apportionment Credit - required if taxpayer(s) claims the credit on line 53 of the IA 1040.
17. **IA 135** – E85 Gasoline Promotion Tax Credit – required if taxpayer(s) claims the credit on line 66 of the IA 1040.
18. **IA 137** – Ethanol Promotion Tax Credit – required if taxpayer(s) claims the credit on line 66 if the IA 1040.
19. **IA 138** – E15 Plus Gasoline Promotion Tax Credit – required if taxpayer(s) claims the credit on line 66 of the IA 1040. (available in the spring of 2012)
20. **IA 8801** – Minimum Tax Credit Carry Forward Credit - required if taxpayer(s) claims the credit on line 53 of the IA 1040.
21. **IA 8864** – Biodiesel Blended Fuel Tax Credit – required if taxpayer(s) claims the credit on line 66 of the IA 1040.

**NOTE:** When eFiling, do not provide additional supporting documentation, unless specifically requested at a later date (ex: tax credit certificate).

#### **Excluded returns and schedules from Iowa electronic filing:**

- Non-calendar year returns
- Prior-year returns
- IA 1040A - Iowa Individual Income Tax Short Form (Use the IA 1040 format.)
- IA 1040X - Amended Iowa Individual Income Tax Return (Iowa returns may be amended electronically; however, the IA 1040 format is used.)
- IA 1040C Composite Iowa Individual Income Tax Return
- IA 2210S - Short Method Underpayment of Estimated Tax by Individuals
- IA 6251B - Balance Sheet/Statement of Net Worth
- Any other returns excluded from federal electronic filing

#### **SIGNATURES**

7.5(3) ...A taxpayer or the taxpayer’s representative using E-mail or other electronic means to submit an income tax return...may use an electronic signature or a signature designated by the department in lieu of a handwritten signature.

## **ELECTRONIC BANKING**

Electronic banking refers to refunds deposited by direct deposit, balance due withdrawn by electronic funds withdrawal (EFW), or withdrawals made through the Department's eFile & Pay system. To assure that the direct deposit or electronic payment works correctly, please observe these guidelines:

- Provide valid information including: taxpayer bank Routing Transit Number, account number, and type of account. Provide debit date and debit amount, if EFW.
- Do not change or close bank accounts between the time a tax return is filed and the electronic banking request is processed. Invalid/missing direct deposit or EFW information will cause the request to be canceled.
- Before authorizing a direct deposit or EFW, the ERO should confirm the taxpayer's financial institution is able to process ACH (Automated Clearing House) transactions.
- The Department will not process banking requests when the IA8453 indicates the refund will go to an account outside the United States. The ERO is required to ask the taxpayer if the designated banking institution is located outside the United States. Refunds that are requested to be paid by direct deposit and whose ultimate destination is to a bank outside of the U.S. will be converted to a paper check and mailed to the address on record. EFWs that request a debit from a bank located outside of the U.S. will be canceled, and the taxpayer will be notified that they must remit their tax through another method.
- Information submitted in the state return cannot be changed once a return has been received by the Department.
- The Iowa acknowledgment only indicates receipt of the return. It does not indicate proof that a refund check will be issued, a direct deposit or EFW will be honored, or the expected refund amount will be the actual refund amount.

## **REFUNDS AND DIRECT DEPOSIT**

When taxpayers are entitled to refunds, providers should inform them that they have several options. An individual income tax refund may be:

- Applied to next year's estimated tax
- Received as a direct deposit or paper check
- Split so that a portion is applied to next year's estimated tax and the rest received as a direct deposit or paper check. (Refunds cannot be split between a direct deposit and a paper check refund.)

When a portion of the refund is offset for a state, county, or IRS liability, direct deposit requests will be honored for the remaining refund.

### **Direct deposit**

The Iowa Department of Revenue offers optional direct deposit of income tax refunds for electronically-filed returns. The taxpayer must show the ERO proof of account from the financial institution. EROs must verify that the direct deposit information entered in Part II of form IA 8453 is correct and is the same information transmitted with the electronic portion of the return. See federal Publication 1345 and Iowa Administrative Rules for complete direct deposit requirements and responsibilities.

Iowa has chosen not to offer split refunds. If direct deposit information is invalid, the Department will issue a check.

## Refund delays

IDR makes every effort to process electronically-filed returns promptly; however, refunds may be delayed for the following reasons:

- Refund is offset for an outstanding liability to IDR, another state agency, an Iowa county, or the IRS
- Errors in the calculation of the return
- Errors in the format of data received electronically
- Additional review needed

## BALANCE DUE RETURNS

We offer four payment options for a balance due income tax return. They include:

- **Direct debit** payment with the income tax return
  - To cancel a payment made with the return, the taxpayer can e-mail Payment Processing at [idreft@iowa.gov](mailto:idreft@iowa.gov). Include taxpayer name, payment amount, scheduled pay date and taxpayer phone number.
- **ePay (direct debit)** [www.iowa.gov/tax](http://www.iowa.gov/tax)
  - On the home page, under "Individuals", click on: ePay (direct debit) Income Tax.
  - Choose the date your payment(s) is taken out.
  - Print the confirmation screen for your records.
- **Credit/Debit Card** at [www.officialpayments.com](http://www.officialpayments.com) or **1-800-2PAY-TAX (800-272-9829)**
  - A 2.5% service fee applies.
- **Mail your payment** and completed IA 1040V Payment Voucher.
  - Checks should be made payable to: Treasurer, State of Iowa.
  - If you eFiled, mail payment to:
    - Iowa Department of Revenue
    - Iowa Income Tax – Document Processing
    - PO Box 10466
    - Des Moines, IA 50306-0466

**File and pay electronically. Good for the environment. Good for you.**

## ERO RESPONSIBILITIES

- Use approved software for the Iowa electronic filing program.
- Use Iowa Schedules A and B, instead of the federal Schedule A and B.
- When an IA 8453 is required:
  - Enter the federal DCN on the IA 8453.
  - Make sure that the name(s) and Social Security Number(s) are printed correctly on the IA 8453 and that the IA 8453 information matches corresponding fields on the electronic return.
  - Retain the IA 8453 and all attachments for three years from the due date or filing date, whichever is later.
  - Send the IA 8453 and all supporting documents within five work days of any IDR request.
- Give the taxpayer copies of all forms filed, including attachments.
- Retrieve the State acknowledgment within two work days of transmission by IDR.

## **IA 8453-IND, DECLARATION FOR AN E-FILE RETURN**

The Department has adopted the PIN signature alternative as implemented by the IRS. The purpose of the IA 8453 is twofold: It gives authorization for the return originator to file on the taxpayer's behalf and it serves as authentication of the return.

The IA 8453 is not required when using the Self-Select PIN signature method.

An IA 8453, Declaration for an E-File Return, must be completed and signed before transmission of the return can take place when:

- The Practitioner PIN method is used to sign the return
- A *State Only* return is eFiled.

Attach to the IA 8453, when it is used:

- State copies of W-2 forms and 1099s
- A copy of other state tax returns, if the IA 130 was completed or the Iowa/Illinois reciprocal was claimed.

### **Changes**

If the ERO makes changes to the electronic return after the taxpayer has signed the IA 8453, but before the data is transmitted, the ERO may be required to have the taxpayer complete a new IA 8453.

A new IA 8453 must be completed and signed by the taxpayer(s) when:

- Line 1 - The *Iowa Net Income* (total of lines 1A and 1B) is different from the amount on the return by more than \$50.
- Line 2 - the *Total Iowa Tax Before Credits* (total of lines 2A and 2B) is different from the amount on the return by more than \$14.
- Line 3 - the *Iowa Income Tax Withheld* (total of lines 3A and 3B) is different from the amount on the return by more than \$14.
- Line 4 - the *Amount to be Refunded* is different from the amount on the return by more than \$14.
- Line 5 - the *Total Amount Due* is different from the amount on the return by more than \$14.

If errors are found after the data has been transmitted and accepted, an amended return must be filed. Amended returns can be submitted electronically as a *State Only* return.

### **Retention**

When required, Form IA 8453-IND must be completed and signed before the return is transmitted. The ERO and the taxpayer must retain the signed IA 8453-IND for three years from the due date of the return or the date filed.

The ERO may send the IA 8453-IND forms to the Department only when the ERO ceases operation. Beginning January 2012, the Iowa Department of Revenue waives the IA 8453-IND retention requirements for volunteer preparers at the VITA and TCE sites.

## **TRANSMISSION PROCESS**

In all situations a copy of the federal return must be included with state return data. Transmissions must be accomplished according to IRS procedures. The data for the Iowa return must be transmitted to the Internal Revenue Service Austin Return Processing Center.

## **FRAUD AWARENESS**

You can assist in identifying potentially fraudulent returns before they are transmitted. Should you suspect false information is being submitted to you for electronic filing, we encourage you to contact the Department's Investigative Audit Section at 515-281-8475.

## **ACKNOWLEDGMENTS**

### **IRS Acknowledgment**

The IRS electronically acknowledges receipt of all transmissions. The federal return may be either accepted or rejected. If accepted, the Iowa return is forwarded electronically to the Iowa Department of Revenue.

If the federal return is rejected, the Iowa return transmitted with the federal return will not be forwarded to Iowa. Consult IRS publication 1345 for more information.

### **State of Iowa Acknowledgment**

The Iowa acknowledgment is separate from the federal acknowledgment. Receiving a federal acknowledgment does not mean Iowa received the state return. Only an Iowa acknowledgment guarantees the Iowa return was received.

Iowa sends its acknowledgments to the IRS daily, except weekends and holidays. Using the same ETIN provided on the return, transmitters must retrieve Iowa acknowledgments from the IRS and transfer this information to EROs within two working days of transmission by IDR.

All Iowa income tax returns successfully transmitted are accepted. An acknowledgment does not indicate if there are any errors in the return, the amount of the refund, or if a direct deposit request will be honored. Electronic tax return errors are resolved the same as for paper.

### **Failure to receive an Iowa acknowledgment**

If one or more of the following occurs:

- You received Iowa acknowledgment for some returns, but not all returns transmitted on the same day
- You received federal acknowledgment records more than three workdays ago, but received no Iowa acknowledgment for the same returns
- A transmission day is skipped (for example, received Iowa acknowledgment records for Monday and Wednesday transmissions, but none for Tuesday)

Then verify:

1. The IRS has accepted the corresponding federal return(s).
2. The accepted federal return had the Iowa return attached to it.
3. All Iowa acknowledgments have been retrieved by the transmitter from the IRS.
4. All Iowa acknowledgments have been retrieved by the ERO from the transmitter.

## **Resolving non-receipt of acknowledgments**

EROs and online filers must contact their transmitter service provider to resolve non-receipt of acknowledgments. Transmitters must provide the GTX Key to the IRS to have the Iowa acknowledgment rehung. Iowa stores the Global Transaction (GTX) Key provided by IRS for use by the State Help Desk. If an Iowa acknowledgment file needs to be rehung, the trading partner can contact Iowa to look up the GTX Key.

IDR will reveal the GTX Key only to transmitters, not EROs or taxpayers, if provided the following information:

- Electronic Transmitter ID Number (ETIN)
- Electronic Filer ID Number (EFIN)
- Primary SSN of tax return(s) in question
- Transmission Date
- Date of federal return acknowledgment
- Transmitter contact name and telephone number

Due to the sensitive nature of social security numbers, please call 515-281-6824 with this information instead of using email.

## **MONITORING AND SUSPENSION OF FILERS**

**IDR will monitor:**

- The quality of an electronic filer's transmission of taxpayers' Iowa income tax returns, the number of return rejections, errors on returns, and other defects that apply to each electronic filer.
- Timely receipt of form IA 8453 and attachments when IDR requests them as well as the legibility of these forms.
- Complaints about an electronic filer regarding the filing of Iowa income tax returns. Failure on the part of the electronic filer to provide IA 8453, W-2s, 1099s, or out-of-state tax returns when requested.

### **Provisions for suspension from the Iowa Electronic Filing Program.**

If an electronic filer is either denied participation in the federal electronic filing program or is suspended from the federal program, the electronic filer will automatically be prohibited from participation in the Iowa electronic filing program.

**The following list is not all-inclusive:**

- a. Deterioration of the format of transmissions of individual Iowa returns.
- b. Unacceptable cumulative error or rejection rate or failing to correct problems resulting in errors in transmission of Iowa returns.
- c. Untimely received, illegible, incomplete, missing, or unapproved substitute forms IA 8453.
- d. Stockpiling returns at any time while participating in the Iowa electronic filing program.
- e. Failure on the part of the transmitter to retrieve an acknowledgment file within two working days of transmission by IDR.
- f. Failure on the part of the transmitter to initiate the communication of acknowledgment files to EROs within two work days of transmission by IDR.
- g. Significant complaints about the electronic filer.

- h. Failure on the part of the electronic filer to cooperate with the Department's efforts to monitor electronic filers, investigate electronic filing abuse, and investigate the possible filing of fraudulent returns.
- i. Submitting the electronic portion of a return with information which is not identical to information on form IA 8453.
- j. Transmitting the Iowa return with software not approved for use in the Iowa electronic return filing program.
- k. Failure on the part of the electronic filer to provide W-2s, 1099s, or out-of-state tax returns when requested.

**Administrative review process for suspension**

The Department will notify the electronic filer in a letter if they are suspended from the program for a problem(s) as described above.

If the electronic filer disagrees with the suspension, the electronic filer must file a written protest with the Department within 60 days of the date of the suspension letter. The written protest must be filed pursuant to rule 701--7.41(17A). The electronic filer will not be allowed to participate in the Iowa electronic filing program during the administrative review process.