

INSTRUCTIONS FOR FILING 1996 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 486 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 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. 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.

PARTNERSHIP NAME, ADDRESS AND FEDERAL I.D. NUMBER: Pre-addressed mailing labels are no longer provided to partnerships who have filed Iowa partnership returns in prior years. Instead these partnerships will receive a return with preprinted name, address and other identification information. If you are not completing a pre-addressed return, 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 federal identification number, complete federal application form SS4 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 (816)926-5999 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 1040's 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 have \$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 along 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. 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: If a partnership is doing business wholly within Iowa, then all of the partnership income is taxable to Iowa. If the partnership is doing business both within and without Iowa, then the partnership can apportion the partnership income received by nonresidents and Iowa would only tax that apportioned 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 the K-1 income will be apportioned to Iowa using a single factor business activity ratio.

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 and 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.

For further information about the taxation of nonresidents, contact Taxpayer Services Section, Iowa Department of Revenue and Finance, Post Office Box 10457, Des Moines, Iowa 50306. If calling from the Des Moines area or from out of state, call (515) 281-3114. Elsewhere in Iowa or from the Rock Island-Moline or Omaha calling areas, call toll free at 1-800-367-3388.

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.

TAX YEARS: All partnerships will file Iowa partnership returns using the same time period as is used on their Federal Partnership Returns.

MOTOR FUEL TAX CREDIT: If the partnership does not have a motor fuel tax refund permit or cancelled its refund permit within the first thirty days of the year, a motor fuel credit may be claimed by each partner on his or her individual income tax return (or by the corporation if it is a partner.) If a motor fuel credit is claimed, complete and attach the following forms to the partnership form:

- 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.

IOWA RESEARCH ACTIVITIES CREDIT, NEW JOBS CREDIT AND MINIMUM TAX CARRYFORWARD CREDIT: You may be qualified for the Iowa research activities credit if your partnership has qualified for a federal credit for expanding research activities and a portion of the expenditures were made in Iowa. The Iowa new jobs credit may apply to your partnership if you started a new business or increased employment by 10% and the new or increased employment was covered by a jobs training agreement under Chapter 260E of the Iowa Code. Your partners may individually qualify for a minimum tax carryforward credit based on Iowa net minimum tax paid on deferral preference items. For additional details about these credits, see form IA 128 (research credit); form IA 133 (new jobs credit); form IA 8801 (minimum tax carryforward credit — individuals); or form IA 8827 (minimum tax carryforward credit — corporations).

SEED CAPITAL CREDIT: You might qualify for this credit if the partnership invested in an initial offering of securities by a qualified business or invested in a qualified seed capital fund after April 26, 1990. Contact the Department for more information about this credit.

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, 1997. Returns are to be mailed to Income Tax Return Processing, Iowa Department of Revenue and Finance, Des Moines, Iowa 50319.

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

SPECIFIC INSTRUCTIONS

PART I — MODIFICATION OF PARTNERSHIP INCOME

Line 1 — Enter the total of the amounts in the income (loss) section of the partnership's Federal schedule K less any Section 179 expense deduction.

Line 2 — Enter the total interest and dividends from foreign securities and 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.

Intangible Drilling Costs Include the amount optionally deducted in the year paid or incurred to the extent the amount deducted exceeds amounts recoverable through cost depletion or depreciation.

Percentage Depletion. Include the excess of IRC section 613 percentage depletion of an oil, gas, or geothermal well over the cost depletion amount determined under IRC section 611.

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 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 handicapped persons or as ex-criminal offenders. Contact the Department of Revenue and Finance Taxpayer Service Section for specific information.

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. 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 federal I.D. number of each partner.

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 and 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 1993, 1994 and 1995. 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 Schedules K-1 for each partner and all other supporting schedules, be attached to this form.