

*An Introduction to Iowa Income Tax*

# WITHHOLDING

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*Iowa Department of  
Revenue and Finance*

Direct questions and correspondence to:

**IOWA DEPARTMENT of REVENUE and FINANCE**

**Taxpayer Services**

**P.O. Box 10457**

**Des Moines, Iowa 50306-0457**

If calling from the Des Moines metropolitan area

or from out of state, call

**(515) 281-3114.**

From elsewhere in Iowa or from the Omaha, Neb., or  
Rock Island/Moline, Ill., calling areas, call toll free:

**1-800-367-3388**



## **WHO MUST ACT AS A WITHHOLDING AGENT?**

Every employer who maintains an office or transacts business in Iowa and who is required to withhold federal income tax on any compensation paid to employees for services performed in Iowa is required to withhold Iowa individual income tax from that compensation.

### **Registering as a withholding agent**

To register as a withholding agent, contact Taxpayer Services for an Iowa withholding application; telephone numbers and an address are on page 1 of this booklet. There is no fee for registering.

## **EMPLOYEE EXEMPTION CERTIFICATE (IA W-4)**

Employers must use the Iowa W-4 (44-019) as of January 1, 1994, for all new hires and rehires. Employers must keep copies in their files.

Employees are required to furnish their employer with a signed IA W-4 indicating the number of exemptions they claim. If no certificate is furnished, the employer must consider that the employee is claiming zero exemptions.

An employee who does not anticipate having a tax liability during the year may file the IA W-4 and claim exemption from tax.

For example: In the 1994 tax year, a married couple or a head of household with a total income of \$13,500 or less for the year may file for exemption. A single person may file for exemption if income is \$9,000 or less.

If the person is claimed as a dependent on someone else's return, the guideline for filing for exemption is \$4,000 per year.

Persons with incomes above these amounts should not file for exemption.



## **WHAT INCOME IS SUBJECT TO WITHHOLDING?**

### **Wages and other employee compensation**

Iowa withholding is applied to the same wages and compensation to which federal withholding applies.

### **Winnings from gambling**

Included for Iowa withholding purposes are lottery winnings and winnings from games of skill, games of chance and raffles in excess of \$600, parimutuel winnings of more than \$1,000, and winnings in excess of \$1,200 from slot machines on riverboats.

### **Agricultural wages**

Iowa income tax is withheld from wages paid to agricultural employees in instances when federal income tax is withheld. An employer must withhold federal income tax if the employer pays more than \$2,500 in wages during the year to all employees or if an individual employee has at least \$150 in wages for agricultural labor in the calendar year.

### **Nonwage requirements**

Iowa income tax must be withheld in cases where federal income tax is withheld. The receiver of the payments cannot elect out of Iowa withholding when federal tax is withheld. This applies to pensions, annuities, supplemental unemployment benefits, sick pay benefits and other nonwage income payments to Iowa residents. In situations where no federal income tax is withheld, the receiver of the payment may choose to have Iowa withholding apply.

Iowa withholding is not required when payment amounts or taxable amounts fall below certain levels, when payments are not subject to Iowa income tax, or when no federal income tax withholding is required on those payments.

Iowa withholding is not required if the payment amount or taxable

amount is less than \$200. Yearly payments of less than \$2,400 are not subject to Iowa withholding.

Withholding may be made at a flat rate of 5 percent or according to a schedule available from Taxpayer Services. Withholding agents should be aware that in certain cases the 5 percent flat rate may be excessive.

### **Nonresident income**

Employers doing business in Iowa must withhold Iowa individual income tax from the wages and salaries of nonresident employees working in Iowa. Withholding for nonresidents is computed the same as for residents.

### **Other nonresident income**

The following additional types of income to nonresidents are subject to Iowa withholding:

- compensation paid to entertainers performing in Iowa (but not payments to entertainment corporations)
- rental payments received from property
- income payments to a beneficiary of an estate or trust
- income derived from any business of a temporary nature such as contracts for construction or fees paid for service

### **Iowa-Illinois agreement**

Iowa and Illinois have a reciprocal agreement on withholding tax.

Wages earned in Illinois by an Iowa resident are subject to Iowa withholding tax. The employee should file an Iowa W-4 and an Illinois form declaring Iowa residency (form IL-W-5) with the Illinois employer.

Illinois residents who work in Iowa have Illinois state income tax withheld from their wages. An employer who hires an Illinois resident to work in Iowa is required to obtain and keep on file an Employee's Statement of Nonresidence in Iowa (Iowa Form 44-016) to verify that Illinois tax should be withheld instead of Iowa tax. This form is available through Taxpayer Services.



## TAXABLE COMPENSATION NOT SUBJECT TO IOWA WITHHOLDING

Exemptions from Iowa withholding follow the guidelines of the Internal Revenue Service, with the following exceptions:

**Domestic workers and clergy** are generally excluded from Iowa tax withholding requirements. However, if they anticipate an Iowa tax liability of \$200 or more and are not subject to withholding, they may be required to submit quarterly estimated payments.

**Interest and dividends** are not subject to Iowa withholding.

**Wages of nonresidents engaged in film production or television production** are not subject to Iowa withholding tax *if* the withholding agent provides certain information to the Department. This includes each nonresident employee's name, permanent address, Social Security number, and estimated amounts the employee is to be paid.

**Agricultural payments to nonresidents** are exempt from Iowa withholding *if* the withholding agent provides certain information to the Department about the sales of agricultural commodities or products. The following information must be given:

- name, address, Social Security number of each nonresident; payments made in the calendar year to the nonresident; county or counties in which the nonresident worked, owned or leased property, had products stored or livestock located.
- the type of agricultural commodities or products: commodity credit certificates, grain, livestock, domestic fowl, or others

*Note: Although these types of wages are not subject to Iowa withholding, they are subject to Iowa income tax.*

## REPORTING AND PAYING THE TAX

### Withholding coupon booklets

An Iowa Employer's Withholding Tax Forms Booklet is mailed annually and contains all of the required reporting forms.

### Remitting the tax

Every employer is required to file a deposit form for each period during the calendar year, even if compensation was not paid during a period. If no wages or compensation was paid during a period, the employer should write "none" on the deposit form, sign the form and submit it as usual.

Employers must submit the withholding tax with the deposit form. Checks and money orders must include the employer's federal employee identification number and must indicate the time period to which the payment applies. Make checks payable to "Treasurer - State of Iowa."

### Electronic Funds Transfer

All businesses that file semi-monthly withholding are required to do so by means of electronic funds transfer (EFT). While EFT eliminates the filing of paper returns throughout the year, semi-monthly filers are still required to complete the Verified Summary of Payments (VSP) report in the same format as all other Iowa employers reporting W-2, 1099R, 1099MISC and 1099 information.

To learn more about EFT, contact Taxpayer Services and ask for the EFT booklet and the Income Information Return Reporting Guidelines booklet.



## **END OF THE YEAR REPORTING**

### **Verified Summary Report**

At the end of the calendar year, the withholding agent is required to submit a completed Verified Summary of Payments Report (VSP) form by the last day of February. The VSP is the form used for sending in copies of W-2 and 1099 forms. The VSP report form is located in the back of the withholding coupon booklet.

Year-end summary reports should not be mailed in the same envelope with a quarterly or monthly return because they are processed differently.

### **Wage and tax statements (W-2)**

The withholding agent must submit a copy of each W-2 and any 1099s or 1099R forms by the end of February with the Verified Summary of Payments Report. W-2s must be given to employees on or before the last day of January or within 30 days of the time the last wage payment is received if requested by the employee. This statement must contain the name, address and federal employer identification number of the employer and the name, address, Social Security number of the employee, the gross amount of compensation paid to the employee during the year and the amount of federal and state tax withheld.

### **1099 forms**

The basic requirements for filing the federal form 1099 are the same as the federal except for reporting thresholds, which are higher for Iowa purposes. The Iowa threshold is \$1,000 except for the 1099 DIV (Statement for Recipients of Dividends and Distribution), for which the threshold is \$100.

Beginning January 1, 1993, the threshold for payments reported in 1994 is revised to conform with the federal thresholds. Also, certain reports may no longer be required; a listing can be obtained from the Department.

## **FAILURE TO WITHHOLD**

Iowa law provides that every withholding agent who fails to withhold and pay to the Department of Revenue and Finance any money required to be withheld and paid is personally, individually and corporately liable to the State of Iowa. In the event the withholding agent fails to withhold and pay, that amount may be assessed against the withholding agent in the same manner as is used to assess personal or corporate income tax.

## **BONDING**

If an employer or withholding agent fails to remit the required withholding tax by the due date, the director of the Department may require the employer or withholding agent to file a bond to ensure timely payment in the future.

## **PENALTY AND INTEREST**

Late-filed payments are subject to penalty and interest.



## **FREQUENT QUESTIONS AND PROBLEMS**

**Does the State of Iowa assign its own employer identification number?**

The federal employer identification number is also used for Iowa withholding purposes.

**I need to register to withhold Iowa tax from employees' wages, but have not yet received my federal employer identification number. What will my number be?**

Complete the application, entering "applied for" in the "Federal I.D. Number" blank. The Department will issue a temporary identification number with a "00" prefix. Once you receive your federal identification number, it is your responsibility to notify the Department of that number so your file can be updated.

**I began withholding from employees but failed to properly register first. Tax is due shortly. What should I do?**

Complete the application and return it as soon as possible. If tax is due or will be due shortly, enclose a check for the amount withheld for the period. Include an explanation of what period the remittance covers. The Department will process your application and credit the amount paid to your account.

**The due date for remitting tax has arrived, but I do not have a coupon to submit the tax. Is tax still due?**

Yes. Tax is considered due even if no reporting form is available. Remit the proper amount due with a note showing your correct name, address, identification number and the period covered by the remittance.

If you feel there may be a problem with your account, contact the Department. It normally takes 6-8 weeks from the time an application is filed until the coupon book for remitting tax payments is received.

**Is the employer required to match the amount of Iowa income tax withheld from the employees' wages?**

No. There is no matching of withholding of Iowa income tax from the employees' wages.

**How is withholding calculated?**

There are two methods of figuring the Iowa income tax withholding. The employer can use either the manual tables or the computer formula; both are provided in the Withholding Tax Guide. Either method is acceptable.

**From where does an employer obtain W-2s and Iowa W-4s?**

W-2s may be obtained from the Internal Revenue Service by calling 1-800-829-3676 or by purchasing them through an office supply/forms business. Iowa W-4s are available free of charge by contacting Taxpayer Services.



## **IOWA ASSISTANCE**

**Receive Iowa forms by fax:**

515/281-3114

1-800-572-3943

### **ERIN**

[Electronic Revenue Information Network]

computer bulletin board

Iowa tax information

515/281-3248

1-800-972-2028

## **IOWA DEPARTMENT OF EMPLOYMENT SERVICES**

1-800-562-4692

## **INTERNAL REVENUE SERVICE**

employer identification number

Tele-TIN: 816/926-5999

forms and publications

1-800-829-3676

federal tax information

1-800-829-1040



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