

"Wages subject to Iowa income tax withholding..."

...is defined as all payments in cash or other form to an employee for services performed for the employer. "Wages" includes all types of employee compensation, such as salaries, fees, bonuses, taxable fringe benefits and commissions. It is immaterial whether payments are based on the hour, day, week, month, year or on a piecework or percentage plan.

What is "estimated tax"?

Taxpayers who receive income other than wages subject to Iowa income tax withholding may be required to pay estimated income tax.

Estimated income tax is just that – estimated. The taxpayer approximates what his or her yearly income will be, subtracts estimated allowable deductions, computes the tax and pays it prior to filing an income tax return. The following information will assist you in determining whether or not you should be paying estimated income tax.

Who must pay estimated tax?

General rule

Taxpayers who estimate that they will owe \$200 or more in taxes because of income other than wages subject to Iowa income tax withholding must pay estimated tax. When the annual income tax return is filed, the prepaid estimated tax will be used as a credit against the actual income tax liability.

Nonresidents who earn wages from services performed in Iowa do not have to make estimated payments to Iowa on those wages.

Iowa income tax must be withheld from their wages by their employers.

Joint payments by married taxpayers

A husband and wife may make estimated tax payments on one form as if they are one taxpayer. If they file separate returns or file separately on the combined return form, the credit will be allocated as they choose.

Separate payments by married taxpayers

A husband and wife may also make separate estimated payments. If the payments are made separately, each spouse may claim the estimated payments he or she made when filing the final income tax return. Two sets of estimated tax forms will be generated for the following tax year if each spouse makes separate estimated payments.

Examples of other types of taxpayers who may be required to pay estimated taxes:

Self-employed taxpayers

Retired persons receiving benefits, certain pensions and income not subject to withholding

Taxpayers who earn at least two-thirds of their income from farming or fishing

Nonresidents who earn income from an Iowa source which is not subject to Iowa income tax withholding

Beneficiaries of estates or trusts – both residents and nonresidents

Taxpayers with income in addition to wages, such as interest, dividends, capital gains, rents, royalties, business income, farm income or certain pensions

How often are estimated tax payments made?

A taxpayer may pay estimated taxes in full with one payment, in four calendar year installments or in four fiscal year installments. Explained below is an exception for farmers and fishers.

For the calendar year, a taxpayer makes four payments on or before April 30, June 30, and September 30, and on or before January 31 of the next year.

On the fiscal year basis, a taxpayer will pay estimated taxes the last day of the fourth, sixth, and ninth months, and the last day of the first month of the next fiscal year.

Farmers and fishers

Farmers and commercial fishers deriving at least two-thirds of their annual income from farming or fishing may pay their estimated taxes as described above, but they also have two other options:

1) They may pay the entire estimated tax by January 15 following the tax year and file the tax return by April 30

or

2) They may file the income tax return and pay the tax in full on or before March 1 of the year following the tax year.

Nonresidents and estimated tax

Nonresidents are subject to Iowa income tax withholding on all Iowa source income payments they receive except for those received from the sale of agricultural commodities or products and livestock. Nonresidents who expect to have an Iowa tax

liability from the sale of agricultural items or from a business operated in Iowa must make quarterly estimated payments using form IA 1040ES. Certain withholding agents, such as farm management companies, can elect to make estimated tax payments on behalf of nonresident taxpayers from sales of agricultural commodities or products. The estimated tax payments from farm management companies should be sent to the Department of Revenue and Finance on or before the last day of the first month after the end of the nonresident taxpayer's tax year.

Nonresidents expecting Iowa source income payments other than wages subject to Iowa income tax withholding may elect to make estimated tax payments by completing a special nonresident estimated tax form (45-005) available from Taxpayer Services. This form, used for the purpose of releasing the Iowa payer (withholding agent) from the withholding requirement, must be completed and approved by the Department so that a release from withholding certificate can be issued to the designated Iowa payer. Any tax shown to be due must be paid in full with the filing of the estimated form and must be mailed to Estimate Processing, Iowa Department of Revenue and Finance, P.O. Box 10466, Des Moines, IA 50306.

Example: A nonresident owns an apartment complex in Iowa which is operated by a manager. When the rental income is collected and proceeds are distributed by the manager to the nonresident owner, the manager is required by state law to withhold Iowa income tax from such proceeds prior to sending a check to the owner. The manager, acting as the Iowa withholding agent, must be registered with the Department. If the owner wants

to pay estimated taxes in lieu of withholding, he or she must complete the nonresident estimated income tax form and pay in full any tax shown due. After receipt of the form and payment of the tax, the Department issues a release from withholding certificate to the manager.

Can taxpayers amend their lowa estimated payments?

If a taxpayer realizes that his or her estimated income will be greater or less than initially estimated, the estimated tax payment should be adjusted.

For example: A married couple is making joint estimated tax payments on a calendar year basis. They estimated their taxable income to be \$8,500 and the estimated income tax liability to be \$300. The taxpayers pay the first quarterly installment of \$75 by April 30 of the current year and the second installment of \$75 by June 30.

On July 15 they sell real estate, which gives them additional taxable income of \$7,500. Their total taxable income for the year is now \$16,000, with a total tax liability of \$900. Since \$150 has already been paid in two payments, the remaining tax liability of \$750 must be divided into two payments of \$375 each. The first of the last two payments will be due on September 30 of the current year, and the second and last payment will be due January 31 of the following year.

Penalty for underpayment of estimated tax

If a taxpayer's income tax liability from income not subject to withholding is \$200 or more, the taxpayer may be subject to penalty for underpayment of estimated tax. This pen-

alty is computed on form IA 2210 for all taxpayers except those who earn at least two-thirds of their annual gross income from farming or fishing. Farmers and fishers can determine the penalty for underpayment of estimated tax on form IA 2210F.

However, taxpayers may avoid the penalty for underpayment of estimated tax if either of the following requirements is met:

1) The current tax year payments are equal to or exceed the prior year's tax liability; the prior year must cover a 12-month period.

OR

2) The current tax year payments are at least 90 percent of the taxpayer's total annualized taxable income as determined on form IA 2210.

High income individuals will avoid Iowa underpayment penalty if they have paid 110 percent of the prior year's liability. "High income": federal AGI shown on prior year return is \$150,000 for married status, \$75,000 for single or married filing separately.

Under what circumstances may penalty be waived?

The penalty for underpayment of estimated taxes may be waived in the following situations:

1) The underpayment was due to casualty, disaster, or other unusual circumstances

OR

2) The underpayment was made by an individual who retired after having attained age 62 or who became disabled in the tax year

of which the estimated tax was due or in the preceding tax year, and the underpayment was due to reasonable cause and not to willful neglect.

Estimated tax forms

Resident and nonresident taxpayers who are making estimated tax payments for the first time should contact Taxpayer Services and ask for either the resident reporting form or the nonresident reporting form. Once the Department has been contacted, taxpayers will receive their forms automatically.

To obtain forms or for more information, write or call:

Taxpayer Services
PO Box 10457
Des Moines, IA 50306-0457

From within the Des Moines calling area
or from out of state:
(515) 281-3114

From elsewhere in Iowa, Omaha and
Rock Island/Moline:
1-800-367-3388

Send Iowa estimated tax payments to:

Estimate Processing
Iowa Department of
Revenue and Finance
PO Box 10466
Des Moines, IA 50306-0466

To leave a comment for Taxpayer Services, our e-mail address is:

WCOOPER@IADRF.E-MAIL.COM

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