

ISCPA January 24, 2024 PTET seminar Q&A

Due to time constraints during the January 24 seminar, there were several questions that were unable to be addressed live. The presenters have provided responses to these questions below. A recording of the January 24 seminar can be found at: <https://www.cpe.live/iscpa/ptet2024/>

NOTE: The recording serves as an informational resource and does **not** qualify for CPE credit.

- 1. On 2023 IA1120S, where should the Iowa PTET payment made in December 2023 be reported on Schedule C Payments? on 1e for Fourth Quarter or line 3 as Other Payments?**
 - a. IDOR: The Department would prefer that the payment be reported on line 1e as a fourth quarter payment.

- 2. Do tiered pass-through entities both claiming PTET cause a double credit on same income?**
 - a. IDOR: That situation does create credits two separate times on the same income, but that is because the income is subject to Iowa tax upon each PTET election. For example, consider a lower-tier entity that makes a PTET election, pays the related PTET liability, and reports the K-1 income and a PTET credit to an upper-tier entity. If the upper-tier entity also makes a PTET election, then the K-1 income it received from the lower-tier entity will be subject to Iowa tax again. However, the upper-tier entity is allowed to use the PTET credit it received from the lower-tier entity to offset its own PTET liability.

- 3. I took a webinar from the speaker Joe referred to re: reporting the PTET separately on the K-1 (not Box 1). If we do use Box 1 to reduce the taxable income - do you believe the 199A deduction should be adjusted to add back the PTET?**
 - a. Joe Kristan: If I understand the question correctly - I do not think the 199A deduction should be adjusted to back out the PTET its inclusion in line 1 would reduce QBI.

- 4. To clarify Does a S corporation partner in a partnership that paid PTET also have to file a PTET return for the individual shareholder to ultimately claim the credit.**
 - a. IDOR: Yes. In this example, when the S corporation receives its PTET credit from the electing partnership, the PTET credit remains at the S corporation level. In other words, the S corporation can claim the PTET credit on its IA 1120S S Corporation Income Tax Return, or on its IA PTE-C Composite Return. If its PTET credit exceeds its Iowa tax liability (including if the S corporation owes no Iowa tax) the S corporation may receive a refund. The only way for the S corporation to generate a PTET credit to its shareholders is for the S corporation to make its own PTET election for the tax year.

- 5. If a taxpayer sold their business in 2023 but hadn't paid in the PTET taxes before year end, is there any relief for taking the PTET deduction in 2023 or will we have to keep the client open for 2024 to claim the deduction for taxes paid?**
 - a. Joe Kristan: I am not aware of any exception to normal accounting rules that would allow you to take the PTET deduction in 2023 if you sold the business in 2023 but made the payment in 2024, absent it qualifying otherwise for a 2023 deduction.

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- 6. Can a taxpayer avoid amendments by filing 2 schedule CCs on 2023IA1040 for 22 and 23 PTET credits?**
- a. IDOR: No, the owner's PTET credit must be claimed for the same tax year that the owner is required to report the related K-1 income from the entity.
- 7. Can the 2024 estimates be paid with a voucher and check or does it have to be done through gov connect?**
- a. IDOR: Estimates may be paid with a voucher and check. You may print a voucher through your tax software (if supported), or you may prepare and print a voucher on GovConnectIowa by selecting "Make a Payment" under the Businesses panel and then selecting "Print a Payment Voucher". Vouchers may be printed through GovConnectIowa through login or outside of login.
- 8. Does making a recurring items election also require a 3115 change in accounting filing?**
- a. Joe Kristan: Reg. Sec. 1.461-5(d)(1) says "A taxpayer is permitted to adopt the recurring item exception as part of its method of accounting for any type of item for the first taxable year in which that type of item is incurred." That should include the first year for which a taxpayer is accruing PTET, assuming it is a "type of item" that the entity has not previously had. After the initial year in which an item is incurred, a 3115 would be required.
- 9. If you had an entity that filed a Composite Tax Return and made the Composite Tax Payment for 2022, if they make the PTET election for 2022, can they move that composite tax payment to the PTET liability? If so, what is the process?**
- a. IDOR: No. Iowa Administrative Code rule 701—405.3(5)"c" provides that once a composite return and composite tax are filed and paid, the amounts are treated as paid by the nonresident member and any refund may only be requested by the nonresident member on that nonresident member's own qualifying Iowa tax return. In this scenario the nonresident member would need to claim their composite tax credit on their Iowa return and request a refund to the extent it exceeded their Iowa tax liability.
- 10. Does interest accrue on 2022 1040 PTET credit amendments? And if so, as of what date?**
- a. IDOR: Yes, per Iowa Code 421.60(2)(e), interest begins to accrue from the first day of the second calendar month after the later of following dates:
- The date of payment
 - The date the return upon which the refund is claimed was due, including extensions.
 - The date the return upon which the refund is claimed was filed.