

Introduction to Iowa Inheritance Tax

Related Topics:

[Inheritance Tax](#)

This is basic information on the Iowa inheritance tax. It is not information regarding probate. This information is not a substitute for legal advice. Please contact an attorney for legal advice or if you have questions concerning probate or any other estate question.

A person who has died, also called a decedent, may leave property to specific individuals or groups, also called beneficiaries. This may be done through the making of a will, which is a written document explaining to whom the decedent wishes to leave their property. A person may also die without making a will. If this occurs, Iowa law provides who will then be considered an heir and how the decedent's property will be distributed. Because there are other possible ways to distribute your property, including the use of trust instruments, you may wish to consult an attorney or an individual specializing in estate planning.

It is important to know who is to receive property, their relationship to the decedent, and the value of the property. The tax is based upon a beneficiary's right to receive money or property which was owned by the decedent at the date of death. This is in contrast to the federal estate tax, which is a tax upon the entire amount of property owned by the decedent at the time of death.

Inheritance Forms

[\(/forms?name=&field_topic_target_id=15\)](/forms?name=&field_topic_target_id=15)

Iowa Inheritance Tax Return

Property in the Estate

The **Inheritance Tax Return (60-008)** (</media/2229/download?inline>) must include a list of the property in the estate and the value of the property, along with a list of liabilities or debts, and deductions. Therefore, it is necessary to first list all property of the decedent. This is called the "gross estate."

The gross estate includes real estate and tangible personal property located in Iowa, in which the decedent had an interest at the time of death. It also includes all intangible personal property if the decedent was domiciled in Iowa. Examples of intangible property are real estate contracts, cash, bank accounts, promissory notes, accounts receivable, mortgages, crop rent, cash rent, stock, and bonds.

Generally, if a property at issue is located in another state, the property law of that state determines whether the property is classified as real, personal, tangible, or intangible, and also whether the decedent had an interest in the property.

Some assets may be exempt, in whole or in part, from inheritance tax, but all estate assets should be reported to the Department. For example, certain employee pensions, profit-sharing plans, or individual retirement accounts payable to a named beneficiary other than the estate itself may not be subject to inheritance tax. However, the estate must still report those assets to the Department even if the assets are not taxable. See Iowa Administrative Code rule 701–900.5.

Although some of a decedent's property or interest in property may not be included in the estate for probate administration purposes, the value of that property is included in the estate for inheritance tax purposes. For example, joint tenancy property, gifts made within three years of death, annuities and certain retirement plans, retained life interests, and trusts are not subject to probate administration but are subject to inheritance tax.

Value of the Property

For purposes of computing the tax, all property includible in the gross estate must be valued at the time of the decedent's death. The fair market value of an item of property, both real and personal, that is included in the gross estate for inheritance tax purposes is expressed in the property's monetary equivalent. The process used to determine fair market value presupposes the voluntary exchange of the item in a market for its equivalent in money. See Iowa Administrative Code rules 701–900.9(1)"b" and 701–900.9(2)"a".

Alternate valuation and special use valuation may be used if elected on the federal estate tax return.

Liabilities and Expenses

Only certain liabilities or debts are allowed to be deducted. These include but are not limited to debts of the decedent owing at the time of death, mortgages or liens securing a debt on Iowa property owned by the decedent, and certain taxes accrued before death. The funeral expenses and expenses incurred in administering the property in the gross estate, including fiduciary fees and attorney fees, are deductible. Some liabilities must be prorated if associated with out-of-state property. See Iowa Administrative Code rule 701–900.6.

Computing the Shares

When the total allowable deductions are determined, they are subtracted from the total gross estate. This leaves a "net estate," which is used to determine the value of various shares distributed to each beneficiary. The tax will then be calculated on each share. The beneficiary and the beneficiary's relationship to the decedent must be listed on the inheritance return.

Supporting Documents

Copies of wills, trust agreements, contracts of sale, deeds, appraisals, and other information necessary to establish the correct tax due must be filed with the inheritance tax return. If a federal estate tax return form 706 (United States Estate (Generation-Skipping Transfer) Tax Return) is filed, a copy of that return must be filed with the inheritance tax return. It may be necessary to file additional documents with the inheritance tax return if requested by the Department.

Iowa Inheritance Tax Checklist (60-007) (</media/2377/download?inline>)

Filing the Return

See **IA 106 Inheritance Tax Return Instructions (60-066)** (</media/2372/download?inline>)

Checking the Status of the Return

The Department will not provide the status of an Inheritance Tax Clearance unless the return was mailed more than 60 days ago and you have not received correspondence from the Department.

The Department will not provide the status of an Income Tax Certificate of Acquittance unless the return was mailed or electronically filed more than 60 days ago and you have not received correspondence from the Department.

For all general inquiries and status updates, **contact the Department** (</locations/iowa-department-revenue>).

Payment of Tax

Inheritance tax is a tax on the share going to a beneficiary, and it is the beneficiary who is responsible for payment of the tax. However, it is the duty of the personal representative to see that the tax is collected and paid. When payment in full has been received by the Iowa Department of Revenue, an inheritance tax clearance will be issued. The tax clearance releases the property from the inheritance tax lien and permits the estate to be closed.

Note: For more information on the limitations of the inheritance tax clearance see Iowa Administrative Code rule 701—900.12(2).

Exemptions From Tax

See **IA 106 Inheritance Tax Return Instructions (60-066)** (</media/2372/download?inline>)

Due Date, Extensions, Penalty, and Interest

The inheritance tax return must be filed and any tax due must be paid on or before the last day of the ninth month after the death of the decedent (or life tenant).

An extension of time to file the return, and to make payment, may be requested using the current, Department-approved **Iowa Inheritance Tax Application for Extension of Time to File (60-027)**

(</media/2373/download?inline>) . If an extension is granted, the taxpayer will be required to pay interest on the unpaid tax which remains due. Interest accrues on a monthly basis, with each fraction of a month considered a full month.

A penalty is assessed by the Department for the failure to timely file or pay the tax due. See **Penalty and Interest Rates (/taxes/make-payment/pay-delinquent-tax/penalties-and-interest-rates)**. This occurs when the return and payment are delinquent and an extension of time has not been granted. The penalty is computed on the amount of the tax that is due. If assets are discovered after completing and filing the original return, an amended return must be filed and any additional tax paid.

Audits

The Department may conduct an audit of the inheritance tax return for the purpose of determining the accuracy of the return filed and the amount of tax due. If additional tax is found to be due, an assessment will be prepared for the amount of the tax due together with any applicable penalty and interest. If the taxpayer disagrees with the assessment they may file a formal protest within 60 days of the assessment date. Information regarding the protest process can be located on the **Taxpayer Bill of Rights (/resources/taxpayer-bill-rights)** page.

Other Related Iowa Taxes

In addition to the Iowa inheritance tax, there are other Iowa state taxes which concern estate property. These are briefly described below.

Iowa Estate Tax

Iowa estate tax is not applicable for deaths on or after 1/1/05 due to changes on the federal 706 which replaced the state death tax *credit* with a state death tax *deduction*.

Iowa Fiduciary Income Tax Return (IA 1041)

The Iowa fiduciary return is the income tax return used to report the annual income earned after the date of death which is taxable to the estates and trusts. The fiduciary return is in addition to the final individual income tax return (IA 1040) which reports income earned up to the date of death.

IA 1041 Iowa Fiduciary Return (63-001) (/forms)

NOTE: You may be liable for additional tax at the federal level or to other states. A professional can assist you in determining whether you have additional tax liabilities and can help you properly complete any necessary forms or returns.