



Iowa Department of **REVENUE**

Research Activities Tax Credit Annual Report For the Period January 1 – December 31, 2019 Revised March 11, 2020

Reporting Requirements

Iowa Code sections 422.10(b), 422.33(5)(h), and 15.335(9) require the Iowa Department of Revenue to produce an annual report on individuals and corporations that claim the Iowa Research Activities Tax Credit. This report considers Research Activities Tax Credit and Supplemental Research Activities Tax Credit claims filed during calendar year 2019.

By law, the Department must report:

- The total amount of Research Activities Tax Credit and Supplemental Research Activities Tax Credit claims.
- The total amount of Research Activities Tax Credit and Supplemental Research Activities Tax Credit claims paid as refunds.
- The name of each claimant for whom a Research Activities Tax Credit in excess of \$500,000 was issued and the amount of the tax credit received.

Tax Credit Eligibility

To qualify for the Iowa Research Activities Tax Credit, in accordance with Internal Revenue Code Section 41, businesses must conduct research in Iowa that is:

- Experimental;
- Undertaken to discover information that is technological in nature; and
- Aimed at the development of a new product.

Qualified research expenditures include expenses incurred in Iowa on:

- Wages;
- The cost of supplies;
- The rental or lease cost of personal property; and
- Contract expenses.

The Research Activities Tax Credit is an incremental credit, which means only research expenditures that exceed a base amount are eligible for the credit. In addition to the Research Activities Tax Credit, companies can also be awarded the Supplemental Research Activities Tax Credit by the Iowa Economic Development Authority.

During the 2018 and 2019 Legislative sessions, the Iowa Research Activities Tax Credit was limited, retroactively for tax years beginning on or after January 1, 2017, to businesses

conducting qualified research that are engaged in manufacturing, life sciences, agriscience, software engineering, or the aviation and aerospace industry. Ineligible businesses include but are not limited to those engaged in agricultural production, those that are an agricultural cooperative, finance or investment company, retailer, wholesaler, transportation company, publisher, real estate company, collection agency, accountant, or architect, or those that are a contractor, subcontractor, builder, or contractor-retailer engaging in commercial and residential repair and installation including but not limited to heating or cooling installation and repair, plumbing and pipe fitting, security system installation, and electrical installation and repair. In addition, to be eligible to claim the Iowa credit, Iowa law requires that the researching entity must claim and be eligible for the Federal Credit for Increasing Research Activities under IRC section 41 for the qualified research expenses for the same taxable year.

Research Activities Tax Credit

The regular Research Activities Tax Credit equals 6.5 percent of qualified research expenditures that exceed the larger of a base amount or 50 percent of current year expenditures.

For example, consider a company with a base research amount of \$5 million that conducts \$10 million in qualified research in Iowa during calendar year 2016. The company is eligible to claim a tax credit equal to 6.5 percent of its incremental research expenditures.

2016 Qualified Research Expenditures:		\$10,000,000
Base Research Expenditure Amount:	-	<u>\$ 5,000,000</u>
Incremental Qualified Research Expenditures:		\$ 5,000,000

Research Activities Tax Credit $\$5,000,000 \times .065 = \$325,000$

The company can claim a Research Activities Tax Credit of \$325,000 against its income tax liability.

For tax years 2010 or later, eligible companies may use the regular method (using IA 128) or the Alternative Simplified Research Credit method (using IA 128S) to calculate their tax credit.

Supplemental Research Activities Tax Credit

Iowa Code section 15.335 specifies that for High Quality Jobs awards, the amount of the supplemental tax credit depends upon the annual gross revenue of the business. Under the regular calculation method, businesses with annual gross revenues of less than \$20 million can claim a supplemental credit up to an additional 10 percent of qualifying incremental research expenditures made in the state. For businesses with annual gross revenues of \$20 million or more, the supplemental tax credit is up to an additional 3 percent.

Companies claiming the Supplemental Research Activities Tax Credit must compute the supplemental credit using the method they used to compute the Research Activities Tax Credit, either the regular or the alternative simplified method.

Claiming the Tax Credit

In addition to filing the IA 1040, for individuals, or form IA 1120, for corporations, all claimants must complete the IA 148 Tax Credits Schedule and one of the following supporting forms in order to report earning a Research Activities Tax Credit:

- Form IA 128 – Iowa Research Activities Tax Credit (Regular Calculation Method), or
- Form IA 128S – Iowa Alternative Simplified Research Activities Tax Credit.

Although Research Activities Tax Credits are only applicable for qualifying business research expenditures, individuals with an ownership interest in pass-through entities such as limited liability companies, S corporations, and partnerships may qualify to claim a portion of the tax credits reported as earned by one or more businesses. Both the Research Activities Tax Credit and the Supplemental Research Activities Tax Credit are refundable, which means the taxpayer can claim the entire tax credit even if the claim exceeds current year tax liability.

The Department uses the information provided on the forms listed above and the IA 148 Tax Credits Schedule to obtain the data for this report. Some data from tax returns filed between January 1, 2019 and December 31, 2019 may be missing from the report since data from returns filed on paper may not yet have been entered into the tax credits database. Although the Department has reviewed the data for obvious computational errors and made any necessary corrections, not all returns and forms have undergone a formal audit.

Summary of Research Activities Tax Credit Claims, Refunds, and Expenditures

The following is a summary of Research Activities Tax Credit and Supplemental Research Activities Tax Credit claims filed between January 1, 2019 and December 31, 2019 by the tax type against which the tax credits were claimed.

**Table 1: Research Activities Tax Credit Claims
1/1/2019 - 12/31/2019**

	Tax Credit Claims					
	Individual		Corporation		Total	
	Number	Amount	Number	Amount	Number	Amount
Research Activities Tax Credits	7,083	\$22,374,968	291	\$53,526,988	7,374	\$75,901,956
Supplemental Research Activities Tax Credits	39	\$150,693	10	\$2,312,411	49	\$2,463,104
Total Research Activities Tax Credits	7,083	\$22,525,661	291	\$55,839,399	7,374	\$78,365,060

Source: Iowa Department of Revenue CACTAS Claim Database

Note: Tax credit claim numbers are preliminary

The number of individual claims has jumped this year due to an increase in the number of credits reported as earned by pass through entities. The claims also include amended returns

with claims filed during calendar year 2019. The following table provides the tax year for which the return was filed during calendar year 2019, the number of returns filed, and the amount of Research Activities Tax Credit and Supplemental Research Activities Tax Credits claimed.

Table 2. Number of Taxpayers that Claimed Research Activities Tax Credits During Calendar Year 2019 by Tax Return Year

Tax Return Year	Number of Taxpayers Filing	Research Activities Credit and Supplemental Research Activities Tax Credits Claimed
2014	6	\$37,350
2015	760	\$6,571,968
2016	873	\$1,750,025
2017	218	\$35,738,570
2018	4,982	\$34,267,147
Total	6,839	\$78,365,060

Source: Iowa Department of Revenue CACTAS Claim Database

Note: Tax credit claim numbers are preliminary

The Department has increased the scope of the review process for these claims in light of the retroactive changes to the tax credit in SF 2417. A portion of the tax year 2017 or later year claims may no longer qualify. If it is determined the claimant does not qualify for the tax credit, the Department will issue a billing if a tax liability is owed or deny the refund request.

Tax credit refunds reflect the portion of tax credit claims which exceeded the taxpayers' Iowa tax liability on both original and amended returns filed during calendar year 2019.

Table 3. Research Activities Tax Credit Refunds
1/1/2019 – 12/31/2019

	Tax Credit Refunds					
	Individual		Corporation		Total	
	Number	Amount	Number	Amount	Number	Amount
Research Activities Tax Credits	2,248	\$6,903,898	186	\$44,328,258	2,434	\$51,232,156
Supplemental Research Activities Tax Credits	5	\$21,861	11	\$2,256,136	16	\$2,277,997
Total Research Activities Tax Credits	2,248	\$6,925,759	186	\$46,584,394	2,434	\$53,510,153

Source: Iowa Department of Revenue CACTAS Claim Database

Note: Tax credit refund numbers are preliminary

Businesses completing qualified research in Iowa must report those expenditures in order to calculate the Iowa Research Activities Tax Credits earned. Iowa research expenditures were

reported by 537 Iowa businesses on the IA 128 and IA 128S tax credit forms filed during calendar year 2019, including any amended returns. These are businesses that report conducting research in Iowa. If the business reporting research is organized as a pass-through entity, its tax credits are claimed by individual taxpayers; i.e., by the proprietor, partners, or shareholders of the pass-through entity. The expenditures reported in forms filed in 2019 totaled \$2.7 billion with wages totaling 47.7 percent of the total research expenditures. The Research Activities Tax Credits and Supplemental Research Activities Tax Credits resulting from the research expenditures in Iowa averaged \$0.030 per dollar of qualifying research.

Table 4. Iowa Research Activities Tax Expenditures from IA 128 and IA 128S Forms Filed During Calendar Year 2019

Number of Forms IA128 and IA128S Filed	Total Iowa Qualifying Research Expenditures	Iowa Research Expenditures on Wages	Wage Share of Total Iowa Research Expenditures	Total Research Activities and Supplemental Tax Credits Reported	Tax Credits Reported per Dollar of Research Expenditures in Iowa
537	\$2,710,672,174	\$1,293,490,545	47.7%	\$80,458,605	\$0.030

Source: Iowa Department of Revenue CACTAS IA 128 and IA 128S Databases

The Research Activities Tax Credits and Supplemental Research Activities Tax Credits reported during 2019 as being earned by businesses filing IA 128 and IA 128S forms are less than the amount claimed. There are currently 499 claims totaling \$7.6 million associated with tax credits for which the researching entity has yet to file the IA 128 or IA 128S or needs to provide additional information to the Department. It is possible that some of these claims are passed through from entities which have already reported their expenditures. In other cases the claims will either be verified or billed after the Department receives the information needed to determine if they qualify for the credit. Therefore, it is likely that research expenditures associated with claims made in 2019 are higher than are reported here. Likewise, there may be claims filed in 2019 that reflect credits reported on IA 128 or IA 128S forms filed in prior years. For these reasons, claims reported in Table 1 do not exactly match credits reported as earned as shown in Table 4.

Summary of Selected Companies Reporting Earning Research Activities Tax Credits

Between January 1, 2019 and December 31, 2019, twenty-six companies reported earning at least one Research Activities Tax Credit in excess of \$500,000, including any reported Supplemental Research Activities Tax Credit and amended returns. The information for these companies is provided below. The amount shown is the amount of Research Activities Tax Credits that have been reported as earned by the company according to the IA 128 or IA 128S filed by the company. In the case of pass through entities, actual claims may be less than this amount if not all shareholders claimed their share of the tax credit reported as earned. Three of these companies filed returns for multiple tax years during the period covered by this report. Each tax year is reported separately. It is possible that some of the listed companies reported earning additional credits for different tax years that did not meet the threshold for reporting. Some companies included may be pass-through entities. The credits from a pass-through entity may be claimed by individuals and those amounts would

be included under individual claims in Table 1. There are thirteen businesses that met the requirements for the first time since the report was first published for calendar year 2009, although some cases appear to reflect the reorganization of companies previously appearing in the report.

Table 5. Companies Earning Research Activities Tax Credits Over \$500,000
1/1/2019 – 12/31/2019

Claimant	Amount Earned
Rockwell Collins Inc & Subs	\$12,698,007
Deere & Company	\$7,513,635
Dow Chemical Co	\$5,323,895
Poet Biorefining, LLC	\$4,459,670
ISF Production, LLLP*	\$4,161,718
Homeland Energy Solutions, LLC	\$2,305,732
Green Plains, Inc.	\$1,955,580
Rockwell Collins Inc & Subs	\$1,821,003
Integrated DNA Technologies	\$1,729,785
Corn, LP*	\$1,448,535
Renewable Energy Group Inc	\$1,396,442
John Deere Construction & Forestry	\$1,386,536
Cargill, Inc. and Subsidiaries	\$1,099,093
Skyworks Solutions, Inc.	\$1,098,900
Little Sioux Corn Processors LLC	\$1,085,319
LSCP, LLLP	\$1,069,272
HNI Corporation	\$1,068,585
Ajinomoto Heartland, Inc.	\$1,036,380
United Technologies Corporation	\$981,670
AMVC Production, LLC	\$880,691
Eichelberger Farms, Inc.	\$829,288
3M Company	\$812,032
LSCP, LLLP*	\$767,696
New Fashion Pork, LLP	\$729,970
Workiva, Inc.	\$719,583
CJ Bio America Inc	\$684,803
Poet - DSM Advanced Biofuels LLC	\$661,521
Western Iowa Energy LLC	\$576,497
Corn LP	\$508,386
Total	\$60,810,224

Source: Iowa Department of Revenue CACTAS IA 128 and IA 128S Databases

Note: The tax credit earned amount includes both the Research Activities Tax Credit and Supplemental Research Activities Tax Credit that were reported during calendar year 2019 on the IA 128 or IA 128S.

*Indicates the tax credit was reported on an amended return filed during the last year. Claims or partial claims associated with those tax credits may have also been included in prior years.