

IOWA Department of REVENUE

Research Activities Tax Credit Annual Report For the Period January 1 – December 31, 2011

Reporting Requirements

Iowa Code sections 422.10(b) and 422.33(5)(h) 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 claims filed during calendar year 2011.

By law the Department must report:

- The total amount of Research Activities Tax Credit claims.
- The total amount of Supplemental Research Activities Tax Credit claims.
- The total amount of Research Activities Tax Credit claims paid as refunds.
- The amounts of Research Activities Tax Credits claimed against corporate income tax and against individual income tax.
- The names and the amounts claimed by taxpayers that claimed in excess of \$500,000 of Research Activities Tax Credits.

Tax Credit Eligibility

To qualify for the Iowa Research Activities Tax Credit, 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 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.

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 which conducts \$10 million in qualified research in Iowa during calendar year 2011. The company is eligible to claim a credit equal to 6.5 percent of its incremental research expenditures.

2011 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 x .065 = \$325,000

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

Eligible companies may compute the credit amount using either the regular method or an alternative method, where the alternative method depends on the applicable tax year. For tax years 2009 or earlier, companies may use the regular method or the Alternative Incremental Research Credit method. For tax years 2010 or later, companies may use the regular method or the Alternative Simplified Research Credit method.

Supplemental Research Activities Credit

The Supplemental Research Activities Tax Credit is only available to companies that receive awards from the Iowa Economic Development Authority under either the Enterprise Zone Program or the High Quality Jobs Program.¹ Iowa Code Section 15.335 specifies that for awards made prior to July 1, 2010, the supplemental credit equals an additional 6.5 percent of qualifying incremental research expenditures made in the State, but may be subject to a per project cap set by the Iowa Economic Development Authority.

For awards made after July 1, 2010, the amount of the supplemental credit depends upon the business's annual gross revenue. Under the regular calculation method, businesses with annual gross revenues 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 credit is up to an additional 3 percent.

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

Claiming the Credit

Although Research Activities Tax Credits are only applicable to qualifying business research expenditures, individuals with ownership interests in pass-through entities such as limited liability companies, S corporations, and partnerships may qualify to claim a portion of the credits 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 credit even if the claim exceeds current year tax liability.

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 claim a Research Activities Tax Credit:

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

The Department uses the information provided on the three 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, 2011 and December 31, 2011 may be missing from the report because data from returns filed on paper may not yet have been entered into the tax credits database. In addition, although the Department has reviewed the data for obvious computational errors and made those corrections, not all returns and forms have undergone a formal audit.

¹ Companies with active contracts under the New Jobs and Income Program or the New Capital Investment Program signed prior to the 2005 expiration of those programs may also be eligible for the Supplemental Research Activities Tax Credit.

Summary of Research Activities Tax Credit Claims

The following is a summary of Research Activities Tax Credit and Supplemental Research Activities Tax Credit claims filed between January 1, 2011 and December 31, 2011.

Table 1. Research Activities Tax Credit Claims and Refunds

1/1/2011 - 12/31/2011

	Tax Credit Claims					
	Individual		Corporate		Total	
	Number	Amount	Number	Amount	Number	Amount
Research Activities Tax Credits	817	\$3,422,062	181	\$31,245,684	998	\$34,667,746
Supplemental Research Activities Tax Credits	110	\$629,555	16	\$16,327,031	126	\$16,956,586
Total Research Activities Tax Credits		\$4,051,617		\$47,572,715		\$51,624,332

	Tax Credit Refunds					
	Individual		Corporate		Total	
	Number	Amount	Number	Amount	Number	Amount
Research Activities Tax Credits	209	\$981,842	131	\$28,607,498	340	\$29,589,340
Supplemental Research Activities Tax Credits	31	\$358,719	15	\$16,275,682	46	\$16,634,401
Total Research Activities Tax Credits		\$1,340,561		\$44,883,180		\$46,223,741

Note: Credit claim numbers are preliminary.

Summary for Selected Tax Credit Claimants

Seven companies filed claims for Research Activities Tax Credits in excess of \$500,000 between January 1, 2011 and December 31, 2011. Information for these companies is provided below. Two of the companies from last year's report did not meet the requirements for inclusion in the report this year. There were no claimants that met the requirements for the first time.

Table 2. Research Activities Tax Credit Large Claimant Details

1/1/2011-12/31/2011

Claimant	Claim Amount
Rockwell Collins Inc & Subsidiaries	\$14,313,898
Deere & Company	\$11,762,241
El Dupont De Nemours And Company Inc	\$7,762,928
John Deere Construction & Forestry Company	\$2,162,782
Monsanto Company	\$1,305,188
Skyworks Solutions Inc	\$667,515
Vermeer Manufacturing Company And Subsidiaries	\$622,650
Total	\$38,597,202

Note: The claim amount includes both the Research Activities Tax Credit and any Supplemental Research Activities Tax Credit.