

Iowa Tax Reform Guidance: Research Activities Credit (RAC)

Iowa Governor Kim Reynolds signed Senate File 2417, an extensive state tax reform bill to improve the tax structure in Iowa. The 2018 Iowa Tax Reform Bill includes modifications of the Research Activities Credit for individual and corporate income tax. The two modifications include: (1) a clarification of how the credit is calculated and (2) limitations on who may claim the credit.

How the credit is calculated

The first modification clarifies the definition of base amount used to calculate the Iowa Research Activities Credit. Base amount means the product of the fixed-based percentage multiplied by the average annual gross receipts of the taxpayer for the four taxable years preceding the taxable year for which the credit is being determined - but in no event shall the base amount be less than fifty (50) percent of the qualified research expenses for the credit year. This is a clarification of an existing law and therefore applies to all tax years, past and present.

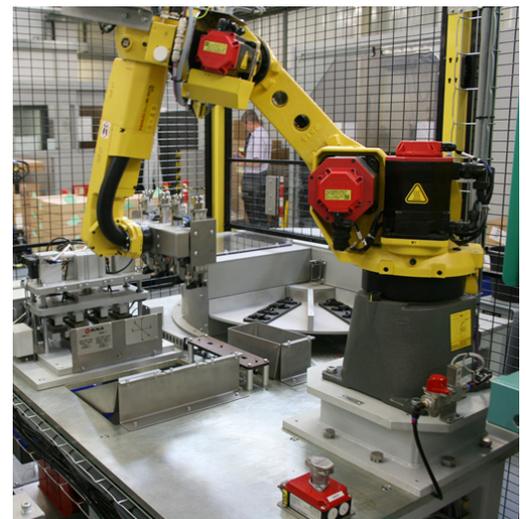
Modification to who may claim the credit

For tax years beginning on or after January 1, 2017, the second modification requires businesses to meet both requirements 1 & 2 to be eligible for the credit:

- 1. Claim and be allowed a Federal Research Credit for qualified research expenses under Internal Revenue Code section 41 for the same taxable year.***
- 2. Be engaged in one of the following industries:***

Manufacturing -

Activities commonly understood within the ordinary meaning of the term and includes refining, purifying, combining of different materials, packing of meats, activities subsequent to the extractive process of quarrying or mining, such as crushing, washing, sizing, or blending of aggregate materials.



Mission Statement:

The mission of the Iowa Department of Revenue is to serve Iowans and support state government by collecting all taxes required by law, but no more.

Life sciences -

The sciences concerned with the study of living organisms, including agriscience, biology, botany, zoology, microbiology, physiology, biochemistry, and related subjects.

Software Engineering -

The detailed study of the design, development, operation, and maintenance of software.

Aviation & Aerospace -

The design, development or production of aircraft, rockets, missiles, spacecraft and other machinery and equipment that operates in aerospace.



In addition to meeting requirements 1 & 2, the business cannot be any of the following:

- Engaged in agricultural production or agricultural cooperatives
- Contractors, subcontractors, builders or contractor-retailers engaged in commercial and residential installation / repair including but not limited to:
 - HVAC installation / repair
 - Plumbing and pipe fitting
 - Security system installation
 - Electrical installation / repair
- Accountants
- Architects
- Collection agencies
- Finance or investment companies
- Publishing companies
- Real estate companies
- Retailer
- Transportation companies
- Wholesalers

Specific scenarios created by the new law



If a business has not yet claimed the credit for tax year 2017 but is eligible under the new limitations, the business should complete a return and include a copy of the new 2017 **IA 128** and **IA 128S** form.



If a business has already claimed the credit for tax year 2017 and is still eligible under the new limitations, no further action is needed. There is no need to complete an updated 2017 form.

Amending Prior Tax Year Returns

If a business already filed a credit claim for a prior tax year and is no longer eligible, the business should file an amended return to add back the amount of the Research Activities Credit claimed. The business should file an amended return by October 31, 2018, in order to avoid receiving a notice of assessment from the Department.

Penalty and interest through October 31, 2018 will be waived for a taxpayer who files an amended 2017 return to add back a Research Activities Credit and files a Penalty Waiver Request. The waiver will only apply to adjustments attributable to the Research Activities Credit.

In order to waive penalty and interest, the business must file the amended 2017 return and submit a [Penalty Waiver Request](#) to the Department on or before October 31, 2018. Businesses should list reason number 6 on the form. In the description box on the form, taxpayers should write "RAC 2017 Amended Return."

If you have questions about amending a return or the Penalty Waiver Request, contact the department at 515-281-0763 or by email at IDRAR@iowa.gov. Questions can also be mailed to:

IDR, Penalty Waiver
PO Box 10471
Des Moines, IA 50306-0471.

A current draft of the administrative rules the Department filed with the Legislative Services Agency can be found [here](#). These proposed rules are not final and are subject to change before the rules become effective.

What does this mean?

- The definition of "base amount" has been clarified.
- Only specific types of businesses are eligible for the credit.
- Businesses that are ineligible for the credit must refrain from claiming the credit and may need to file an amended return.
- Businesses that are eligible for the credit, and have not yet claimed a credit for 2017, should use the Department's new 2017 [IA 128](#) and [IA 128S](#) form.