



Iowa Research Activities Tax Credit

Table with 2 columns: Name(s) / SSN or FEIN, Pass-Through Entity (if applicable) / Pass-Through FEIN

PART I – Calculation of U.S. Qualified Research Expenses

- 1. Certain amounts paid or incurred to energy consortia
2. Basic research payments to qualified organizations
3. Qualified organization base period amount
4. Subtract line 3 from line 2. If zero or less, enter zero
5. Wages for qualified research services
6. Cost of supplies used in conducting qualified research
7. Rental or lease costs of computers used in conducting qualified research
8. Applicable portion of contract research expenses
9. Total qualified research expenses. Add lines 5 through 8
10. Fixed-based percentage to 4 decimals, but not more than 16.00%
11. Average U.S. annual gross receipts for tax years 2010 through 2013
12. Base amount. Multiply line 11 by the percentage on line 10
13. Subtract line 12 from line 9. If zero or less, enter zero
14. Multiply line 9 by 50% (0.5)
15. Enter the smaller of line 13 or line 14
16. Total allowable U.S. qualified research expenses. Add lines 1, 4, and 15

PART II – Calculation of Credit Based on Percentage of Research Occurring within Iowa

- 17. Certain amounts paid or incurred to energy consortia in Iowa
18. Basic research payments to qualified organizations in Iowa
19. Iowa apportioned qualified organization base amount
20. Subtract line 19 from line 18. If zero or less, enter zero
21. Wages for qualified research services performed in Iowa
22. Cost of supplies used in conducting qualified research in Iowa
23. Rental or lease costs of computers used in conducting qualified research in Iowa
24. Applicable portion of contract research expenses incurred in Iowa
25. Add lines 21 through 24
26. Total Iowa qualified research expenses. Add lines 17, 18, and 25
27. Total U.S. qualified research expenses. Add lines 1, 2, and 9
28. Iowa share of research. Divide line 26 by line 27, enter percentage to 4 decimals
29. Expenses allocable to Iowa. Multiply line 16 by line 28
30. Iowa Research Activities Tax Credit. Multiply line 29 by 6.5% (0.065). Enter on Part II of the IA 148 Tax Credits Schedule
31. Supplemental Research Activities Tax Credit. See instructions. Enter on Part II of the IA 148 and include the tax credit certificate number
32. Pass-through Iowa Research Activities Tax Credit received from partnership, LLC, S corporation, estate, or trust. Enter on Part II and Part IV of the IA 148
33. Pass-through Supplemental Research Activities Tax Credit received from LLC, partnership, S corporation, estate, or trust. Enter on Part II and Part IV of the IA 148 and include the tax credit certificate number

IA 148 Tax Credit Schedule must be completed.

IA 128 Research Activities Tax Credit Instructions

Form IA 128 is used if the taxpayer elects to claim the regular Research Activities Tax Credit. Form IA 128S is used only if the taxpayer elects to claim the Alternative Simplified Research Activities Tax Credit. The taxpayer may elect to use this method regardless of the method used in computing the federal research credit. This option is for Iowa purposes and is effective only for the current tax year. The taxpayer is not required to use this method in computing the Research Activities Tax Credit for subsequent years.

Research expenses qualified for the Iowa Research Activities Tax Credit are based on the rules governing the federal research tax credit, see section 41(c) of the Internal Revenue Code (IRC).

Any credit in excess of tax liability can be refunded or credited to tax liability for the following year.

Innovative Renewable Energy Generation

Effective July 1, 2009, research activities under the High Quality Jobs Program or under the Enterprise Zone Program include the development and deployment costs of innovative renewable energy generation components manufactured or assembled in Iowa. This cannot include components with more than 200 megawatts of installed effective nameplate capacity. These costs are not eligible for the federal research credit. A separate form IA 128 must be completed to account for these costs, which can be included on lines 5 and 21 of the separate form IA 128. The amount of the additional credit relating to these costs is not eligible for the Supplemental Research Activities Tax Credit.

Example: An eligible business with gross receipts of less than \$20 million computes an Iowa Research Activities Tax Credit of \$50,000, excluding any costs relating to innovative renewable energy generation components. When the costs relating to innovative renewable energy generation components are included on lines 5 and 21, the Iowa credit is \$75,000. The business is allowed a supplemental credit of \$76,923 under the original claim, which would result in an Iowa credit of \$126,923. This can be added to the additional credit relating to the innovative renewable energy generation components of \$25,000, resulting in a total Iowa Research Activities Tax Credit of \$151,923.

Trades or Businesses under Common Control

For a group of trades or businesses under common control (whether or not incorporated), the Research Activities Tax Credit is figured as if all the

organizations are one trade or business. The credit calculated for the group must then be shared among the members of the group on the basis of each member's proportionate contribution to the increase in research expenses. Adjustments for Certain Acquisitions and Dispositions

If a major portion of a trade or business is acquired or disposed of, adjustments must be made to research expenses for the period before or after the acquisition or disposition.

Short Tax Year

For any short tax year, qualified research expenses are annualized.

Apportionment of Credit

The credit calculated on lines 1 through 30 by a partnership, LLC, S corporation, estate, or trust is apportioned to the members. The pass-through entity must file the IA 128 with its return and show on Schedule K-1, or on an attachment to Schedule K-1, the credit for each member and instruct the members to report the apportioned credit on line 32 of form IA 128 and include it with their tax returns.

If the taxpayer earns a credit by conducting research and is a member of a business that has passed through a credit to the taxpayer, calculate the credit on form IA 128, lines 1 through 31. Also enter the pass-through credit on line 32.

Supplemental Research Activities Credit

Businesses with tax incentive contracts under the High Quality Jobs Program or the Enterprise Zone Program can be awarded a Supplemental Research Activities Tax Credit by the Iowa Economic Development Authority (IEDA). The maximum supplemental credit claim is provided in the contract along with the tax credit certificate number. For awards issued by the IEDA prior to July 1, 2010, the amount of the supplemental credit cannot exceed the credit amount shown on line 30. For awards made by the IEDA on or after July 1, 2010, the supplemental credit cannot exceed 10% of line 29 for businesses with gross receipts of \$20 million or less. The supplemental credit cannot exceed 3% of line 29 for businesses with gross receipts exceeding \$20 million.

If the Supplemental Research Activities Tax Credit is earned by a pass-through entity, report the supplemental credit separately on Schedule K-1 and the certificate number. Instruct members to report their credit on line 33 of form IA 128 and include it with their tax returns.

IA 128 Instructions

Lines 1 through 8: U.S. qualified research expenses - Enter amounts from the federal Credit for Increasing Research Activities, form 6765.

Line 10: Fixed-base percentage - Use the same fixed-base percentage calculated for the federal research credit, rounding to four decimal places (1/100th of 1%), not to exceed 16.00%.

Line 11: U.S. annual gross receipts - Enter the average U.S. annual gross receipts for the four tax years preceding the tax year for which the credit is being determined. For any short year you may be required to annualize gross receipts. See IRC sections 41(c)(1)(b) and 41(f)(4) for details

Line 17: Iowa energy consortia research expenses - Enter the amounts paid or incurred to energy research consortia in Iowa. In general, an energy research consortium is any organization described in IRC section 501(c)(3) exempt from tax under section 501(a), organized and operated primarily to conduct energy research, and not a private foundation. These amounts cannot be included elsewhere on the return.

Line 18: Iowa basic research expenses - Corporations other than S corporations, personal holding companies, service organizations, LLCs, and partnerships, enter cash payments, pursuant to a written contract, made to a qualified university or scientific research organization in Iowa for basic research. See IRC section 41(e) for details.

Line 19: Iowa base amount - Enter the qualified organization base period amount based on minimum basic research amounts for the preceding three years, See IRC section 41(e) for details. For purposes of apportionment, multiply the amount on line 3 by the amount on line 18 divided by the amount on line 2.

Line 21: Iowa expenses on research wages - Enter any wages paid to an employee for qualified research services performed in Iowa.

Line 22: Iowa expenses on research supplies - Enter the amounts paid or incurred for supplies used in the conduct of qualified research in Iowa.

Line 23: Iowa research expenses on computers - Enter the amount paid or incurred to another person for the right to use computers in the conduct of qualified research in Iowa. This entry must be reduced by any amount received or accrued from any other person for the right to use substantially identical personal property.

Line 24: Iowa contract research expenses - Include 65% of qualified research performed on

your behalf in Iowa. Use 75% for payments made to a qualified research consortium and 100% for payments made for qualified energy research performed by an eligible small business, university, or federal laboratory. Include payments to those same entities to the extent they are included as basic research payments in line 18, not to exceed the base period amount in line 19, subject to the 65% or 75% limitation.

Line 30: Research Activities Tax Credit - Individuals and C corporations must enter this amount on the IA 148 Tax Credits Schedule under Part II, using tax credit code 58.

Line 31: Supplemental Research Activities Tax Credit - Individuals and C corporations must enter this amount on the IA 148 Tax Credits Schedule under Part II, using tax credit code 59, and include the tax credit certificate number reported on the tax credit certificate issued by EDA.

Line 32: Pass-through Research Activities Tax Credit - If the taxpayer has received any pass-through Research Activities Tax Credit from a partnership, LLC, S corporation, estate, or trust, indicate that amount on this line. Individuals and C corporations must enter the amount of line 32 on Part II of the IA 148 Tax Credits Schedule, using tax credit code 58, and provide the pass-through name and Federal Employer Identification Number (FEIN) in Part IV of the IA 148 Tax Credits Schedule. File a separate IA 128 for each pass-through Research Activities Tax Credit received. Also list the claims separately on Part II of the IA 148 Tax Credits Schedule, providing each pass-through name and FEIN in Part IV.

Line 33: Pass-through Supplemental Research Activities Tax Credit - If the taxpayer has received any pass-through Supplemental Research Activities Credit from a partnership, LLC, S corporation, estate, or trust, indicate that amount on this line. Individuals and C corporations must enter the amount of line 33 on Part II of the IA 148 Tax Credits Schedule, using tax credit code 59, include the tax credit certificate number reported on Schedule K-1, and provide the pass-through name and FEIN in Part IV of the IA 148 Tax Credits Schedule. File a separate IA 128 for each pass-through Supplemental Research Activities Tax Credit received. Also list the claims separately on Part II of the IA 148 Tax Credits Schedule, providing each pass-through name and FEIN in Part IV.