



Iowa Department of **REVENUE**

Research Activities Tax Credit Annual Report For the Period January 1 – December 31, 2016

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 2016.

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.

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 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 Enterprise Zone and High Quality Jobs tax credit awards made prior to July 1, 2010, the Supplemental Research Activities Tax 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 Enterprise Zone and High Quality Jobs awards made after July 1, 2010, 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

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 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.

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 128S – Iowa Alternative Simplified Research Activities Tax Credit.

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, 2016 and December 31, 2016 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, 2016 and December 31, 2016 by the tax type against which the tax credits were claimed.

Table 1. Research Activities Tax Credit Claims
1/1/2016 – 12/31/2016

	Tax Credit Claims					
	Individual		Corporation		Total	
	Number	Amount	Number	Amount	Number	Amount
Research Activities Tax Credits	1,504	\$8,673,251	305	\$43,209,559	1,809	\$51,882,810
Supplemental Research Activities Tax Credits	45	\$614,170	18	\$5,883,134	63	\$6,497,304
Total Research Activities Tax Credits	1,504	\$9,287,421	305	\$49,092,693	1,809	\$58,380,114

Source: IA 148 Tax Credit Schedule

Note: Tax credit claim numbers are preliminary

Tax credit refunds reflect the portion of tax credit claims which exceeded the taxpayers' lowa tax liability.

Table 2. Research Activities Tax Credit Refunds

1/1/2016 – 12/31/2016

	Tax Credit Refunds					
	Individual		Corporation		Total	
	Number	Amount	Number	Amount	Number	Amount
Research Activities Tax Credits	461	\$2,817,767	207	\$35,274,585	668	\$38,092,352
Supplemental Research Activities Tax Credits	24	\$451,173	14	\$5,117,399	38	\$5,568,572
Total Research Activities Tax Credits	461	\$3,268,940	207	\$40,391,984	541	\$43,660,924

Source: IA 148 Tax Credit Schedule

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 514 Iowa businesses on the IA 128 and IA 128S tax credit forms filed during calendar year 2016. If the business reporting research is organized as a pass through entity, its tax credits are likely to be claimed by individual taxpayers. The expenditures totaled over \$2.05 billion with wages totaling 59 percent of the total research expenditures. The Research Activities Tax Credits and Supplemental Research Activities Tax Credits resulting from the research expenditures in Iowa average \$0.031 per dollar of qualifying research.

Table 3. Iowa Qualifying Research Expenditures from Forms IA 128 and IA 128S

01/01/2016 – 12/31/2016

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
514	\$2,055,074,223	\$1,212,993,560	59.0%	\$62,994,874	\$0.031

Source: Forms IA 128 and IA 128S

The Research Activities Tax Credits and Supplemental Research Activities Tax Credits reported as being earned by businesses filing IA 128 and IA 128S forms during 2016 are higher than the amount claimed. This difference reflects members of pass-through entities who have not yet claimed their allocation of the Research Activities Tax Credit.

Summary of Selected Tax Credit Claimants

Seventeen companies earned at least one Research Activities Tax Credit in excess of \$500,000 between January 1, 2016 and December 31, 2016, including any reported Supplemental Research Activities Tax Credit and amended returns; claims are reported separately for each tax year filed. Information for these companies is provided below. 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 two claimants that met the requirements for the first time since the report was first published for calendar year 2009.

Table 4. Research Activities Tax Credit Large Claimant Details
1/1/2016 – 12/31/2016

Claimant	Claim Amount
Rockwell Collins Inc. & Subsidiaries	\$12,255,474
Deere & Company	\$8,018,652
EI Dupont De Nemours And Company Inc.	\$5,099,050
Golden Grain Energy LLC	\$4,041,546
John Deere Construction & Forestry Company	\$2,615,263
Carleton Life Support Systems, Inc.	\$1,468,415
Skyworks Solutions, Inc.	\$1,230,336
Monsanto Company	\$1,034,358
Vermeer Manufacturing Company And Subsidiaries	\$1,028,751
HNI Corporation & Subsidiaries	\$948,907
Horizon Ethanol LLC AKA Poet	\$924,688
Kemin Worldwide Holdings Inc.	\$903,715
CJ Bio America Inc.	\$877,521
AMVC Production LLC	\$825,092
Interstate Power and Light Company	\$645,296
Syngenta Seeds Inc.	\$634,401
Intermec Technologies Subsidiary of Honeywell Intl Inc.	\$619,684
Golden Grain Energy LLC	\$593,832
Golden Grain Energy LLC	\$516,331
Total	\$44,281,312

Source: Forms IA 128 and IA 128S

Note: The tax credit claim amount includes both the Research Activities Tax Credit and Supplemental Research Activities Tax Credit that were first claimed during calendar year 2016.