



Iowa Department of **REVENUE**

Research Activities Tax Credit Annual Report For the Period January 1 – December 31, 2018

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 2018.

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 Legislative session, 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, 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 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

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, 2018 and December 31, 2018 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, 2018 and December 31, 2018 by the tax type against which the tax credits were claimed.

**Table 1. Research Activities Tax Credit Claims
1/1/2018 – 12/31/2018**

	Tax Credit Claims					
	Individual		Corporation		Total	
	Number	Amount	Number	Amount	Number	Amount
Research Activities Tax Credits	5,305	\$14,809,222	428	\$51,614,414	5,733	\$66,423,636
Supplemental Research Activities Tax Credits	111	\$166,282	15	\$3,407,928	126	\$3,574,210
Total Research Activities Tax Credits	5,305	\$14,975,504	428	\$55,022,342	5,733	\$69,997,846

Source: IA 148 Tax Credit Schedule

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 earned by pass through entities. The claims also include amended returns with claims filed during calendar year 2018. The following table provides the tax year for which the return was filed during calendar year 2018, the number of returns filed, and the amount of Research Activities Tax Credit and Supplemental Research Activities Tax Credits claimed.

Table 2. Returns with Research Activities Tax Credits Filed During Calendar Year 2018 by Tax Return Year

Tax Return Year	Number of Returns	Research Activities Credit and Supplemental Research Activities Tax Credits Claimed
2013	13	\$441,497
2014	771	\$3,121,856
2015	364	\$1,809,778
2016	516	\$32,622,397
2017	4,069	\$32,002,318
Total	5,733	\$69,997,846

Source: IA 148 Tax Credit Schedule

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 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 2018.

Table 3. Research Activities Tax Credit Refunds

1/1/2018 – 12/31/2018

	Tax Credit Refunds					
	Individual		Corporation		Total	
	Number	Amount	Number	Amount	Number	Amount
Research Activities Tax Credits	1,582	\$4,262,293	239	\$38,762,029	1,821	\$43,024,322
Supplemental Research Activities Tax Credits	33	\$110,382	11	\$2,989,781	44	\$3,100,163
Total Research Activities Tax Credits	1,582	\$4,372,675	239	\$41,751,810	1,821	\$46,124,485

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 642 Iowa businesses on the IA 128 and IA 128S tax credit forms filed during

calendar year 2018, including any amended returns. 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 \$2.45 billion with wages totaling 55.2 percent of the total research expenditures. The percentage of expenditures reported as wages has decreased as a result of more investments shifting to cost of supplies. The Research Activities Tax Credits and Supplemental Research Activities Tax Credits resulting from the research expenditures in Iowa averaged \$0.028 per dollar of qualifying research.

Table 4. Iowa Qualifying Research Expenditures from Forms IA 128 and IA 128S
01/01/2018 – 12/31/2018

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
642	\$2,449,239,667	\$1,352,258,206	55.2%	\$68,923,198	\$0.028

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 2018 are less than the amount claimed. There are currently 311 claims totaling \$3.4 million associated with tax credits for which the researching entity has yet to file the IA 128 or IA 128S or needs to provide the Department additional information about the qualifying research. These claims will either be verified or billed once the Department receives the information needed to determine if they qualify for the credit. Likewise, there may be claims filed in 2018 that reflect credits reported on IA 128 or IA 128S forms filed in prior years. Under both of these cases, those claims are reflected in Table 1 but the credits earned are not reflected in Table 4.

Summary of Selected Tax Credit Claimants

Twenty-four companies earned at least one Research Activities Tax Credit in excess of \$500,000 between January 1, 2018 and December 31, 2018, including any reported Supplemental Research Activities Tax Credit and amended returns; tax credits 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 nine businesses that met the requirements for the first time since the report was first published for calendar year 2009, although a handful appear to reflect reorganizations of companies previously appearing in the report.

Table 5. Research Activities Tax Credit Large Claimant Details
1/1/2018 – 12/31/2018

Claimant	Claim Amount
Rockwell Collins Inc.	\$13,765,858
Deere & Company	\$4,765,080
E I Dupont De Nemours & Company Inc.	\$4,760,286
John Deere Construction & Forestry Company	\$2,439,812
Green Plains Inc.	\$1,698,055
Poet Design & Construction Inc.*	\$1,646,272
Cargill Inc & Subsidiaries	\$1,544,601
Mastec North America Inc.*	\$1,497,662
Dow Chemical Co.	\$1,460,035
LSCP LLLP	\$1,228,651
Skyworks Solutions Inc.	\$1,098,900
HNI Corporation	\$1,068,585
CJ Bio America Inc.	\$951,182
Innovative Ag Services Company	\$925,444
Golden Grain Energy LLC	\$817,504
Poet Biorefining - Corning, LLC FKA Pinnacle Ethanol LLC	\$810,844
Vermeer Manufacturing Company	\$774,516
Monsanto Company	\$771,184
Carleton Life Support Systems	\$760,940
Poet DSM Project Liberty LLC	\$691,934
Workiva Inc.	\$629,951
Reicks View Farms LLC*	\$629,949
Syngenta Corporation	\$573,830
Reicks View Farms LLC*	\$555,879
Poet Biorefining Gowrie LLC FKA Frontier Ethanol LLC	\$543,453
Total	\$46,410,407

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 or amended during calendar year 2018.

*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.