



[HF 2660](#) – Research Activities Credit, Agricultural Production (LSB5768HV)
Staff Contact: Eric Richardson (515.281.6767) eric.richardson@legis.iowa.gov
Fiscal Note Version – New

Description

[House File 2660](#) includes agriscience research as an eligible activity for claiming the Research Activities Tax Credit (RAC) and defines “agriscience research.”

The Bill applies retroactively to tax years beginning on or after January 1, 2017.

Background

2018 Iowa Acts, [chapter 1161](#) (Income and Sales Tax Modification Act), made changes to the RAC that restricted the types of industries eligible for the credit, which were retroactively effective to tax year (TY) 2017. Iowa Code chapter [422](#) details the RAC, which is available to claim against the individual income tax and corporate income tax for qualified research activities in the State. There is currently an exclusion from the RAC for persons engaged in agricultural production as defined in Iowa Code section [423.1](#). The Bill redefines “agriscience research” to include qualified research activities in the areas of animal science, veterinary medicine, nutritional science, or genetic science that may be eligible to claim the RAC. From FY 2019 to FY 2023, approximately \$294.9 million in credits was claimed against the State individual income and corporate income taxes.

Assumptions

- The Bill makes no provision to allow tax returns to be amended beyond the standard three-year amendment period in current law, according to the Iowa Department of Revenue (IDR). Therefore, it is assumed that tax years prior to TY 2020 would not have amendments filed.
- It is assumed that \$24.3 million in pending tax credit appeals filed with the IDR is included in this fiscal analysis, which includes pending appeals from tax years beginning in TY 2017.
- The initial fiscal impact of the Bill will occur in FY 2024 due to amended tax returns.
- The tax credit is fully refundable for tax years beginning prior to January 1, 2023.
- According to the IDR, aggregate tax credit claims will increase by \$21.9 million for TY 2020 based on appeals filed with the IDR.
- Tax credits due to the Bill will increase at a rate of 2.9% based on historical claim data.
- For tax years beginning on or after January 1, 2023, any refundable portion of the tax credit is limited to a percentage of the excess of the tax liability as follows: 70.0% for tax years beginning in 2023, 65.0% for tax years beginning in 2024, 60.0% for tax years beginning in 2025, 55.0% for tax years beginning in 2026, and 50.0% for tax years beginning in 2027 or later.
- The tax credit is refundable and will have no impact on the [income surtax for schools](#).

- According to the IDR, it is assumed that 94.7% of the tax credits will be claimed, with the timing of claims indicated below:
 - Year 0 = 0.0%
 - Year 1 = 10.1%
 - Year 2 = 50.4%
 - Year 3 = 28.8%
 - Year 4 = 3.0%
 - Year 5 = 2.4%

Fiscal Impact

The proposed expansion of the RAC in House File 2660 is projected to decrease net General Fund revenue by the following amounts each fiscal year:

- FY 2024 = \$37.7 million
- FY 2025 = \$48.3 million
- FY 2026 = \$28.0 million
- FY 2027 = \$16.5 million
- FY 2028 = \$13.7 million
- FY 2029 = \$13.0 million

Sources

Iowa Department of Revenue
Legislative Services Agency analysis

/s/ Jennifer Acton

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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