
FISCAL TOPICS

Fiscal Services Division

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Tax Credit: Research Activities Tax Credit

The Research Activities Tax Credit is based on the rules governing the federal Research and Experimentation Tax Credit. The Iowa credit is based on the ratio of Iowa qualified research expenses, for research conducted in Iowa, to total qualified research expenses. The taxpayer can elect each year to calculate the Iowa credit using the regular method or the simplified method. The regular method allows a credit of 6.5% of incremental research expenses. The alternative simplified method allows a credit of 4.55% of the excess of current-year qualified research expenses in Iowa over 50.0% of the prior three-year average, or 1.95% of current-year qualified research expenses in Iowa when no prior research has been conducted.

Taxpayers who are approved by the Iowa Economic Development Authority (IEDA) under the Enterprise Zone Program or High Quality Jobs Program may receive a Supplemental Research Activities Tax Credit. For businesses using the regular method and with annual gross revenue of \$20.0 million or less, the amount of supplemental credit is the sum of 10.0% of the excess of qualified research expenses during the tax year over the base amount for the tax year based upon Iowa's apportioned share of the qualifying expenses for increasing research activities, and 10.0% of the basic research payments during the tax year based upon Iowa's apportioned share of the qualifying expenses for increasing research activities.

For businesses with gross revenues exceeding \$20.0 million, the amount of the supplemental credits is the sum of 3.0% of the excess of qualified research expenses during the tax year over the base amount for the tax year based upon Iowa's apportioned share of the qualifying expenses for increasing research activities, and 3.0% of the basic research payments during the tax year based upon Iowa's apportioned share of the qualifying expenses for increasing research activities.

For businesses choosing to compute the credit using the alternative simplified methodology, the supplemental credit percentages are 7.0% or 3.0% of qualified research expenses that are incurred in Iowa for businesses with annual gross revenues of \$20.0 million or less, and for businesses with annual gross revenues exceeding \$20.0 million, the percentages are 2.1% or 0.9%.

An additional \$2.0 million in Research Activities Tax Credits is available for expenses related to the development and deployment of innovative renewable energy generation components and deployment of innovative renewable energy generation components manufactured or assembled in Iowa. These expenses are not eligible for the federal Research and Experimentation Tax Credit and are not eligible for the Supplemental Research Activities Tax Credit. A business eligible for this credit must be approved by the IEDA.

More Information

Department of Revenue Contingent Liabilities Report: tax.iowa.gov/reports?term_node_tid_depth=79

Department of Revenue Tax Credit Review: tax.iowa.gov/sites/default/files/2022-01/Research%20Activities%20Tax%20Credit%20Evaluation%20Study%202021.pdf

Department of Revenue Tax Credit Users' Manual: tax.iowa.gov/sites/default/files/2022-12/TaxCreditsUsersManual2022.pdf

Legislative Services Agency Individual Income Tax Guide: legis.iowa.gov/docs/publications/LG/711304.pdf

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The tax credit applies to corporate and individual income taxes and is available to businesses in identified qualifying industries.

Tax Credit Background

- Enabling Legislation: 1983 Iowa Acts, chapter [179](#) (Federal Tax Code Coordination Act)
- Iowa Code Citations:
 - Section [15.119](#) — Awards Limitation for Supplemental Credits
 - Section [15.335](#) — Program Description
 - Section [422.10](#) — Individual Income Tax
 - Section [422.33\(5\)](#) — Corporate Income Tax
- Administrative State Agencies: IEDA and Iowa Department of Revenue (IDR)
- Sunset Date: None
- Transferable: No
- Refundable: Yes
- Carryforward: No
- Tax Review Committee Review Year: 2026

Legislative History

The Research Activities Tax Credit went into effect on January 1, 1985. In tax years 2000 through 2009, taxpayers could elect to take the Alternative Incremental Research Activities Tax Credit; and starting in 2010, taxpayers could elect to take the Alternative Simplified Research Activities Tax Credit. Effective July 1, 2005, an additional \$1.0 million in Research Activities Tax Credits was made available for expenses related to the development and deployment of innovative renewable energy generation components manufactured or assembled in Iowa. Effective July 1, 2009, an additional \$1.0 million was made available for the Renewable Energy Components Research Activities Credit. After July 1, 2009, claimants for whom a tax credit was issued in excess of \$500,000 must be reported annually to the Legislature. Effective July 1, 2010, the calculation of the Supplemental Research Activities Credit was made conditional on the annual gross revenues of the eligible business. Effective for tax year 2017, eligible researching entities were limited to those within industries specified in Iowa Code section [15.329](#).

Tax Credit Review, Usage, and Future Liability

The Department of Revenue (IDR) reports on the annual credit usage for the Research Activities Tax Credit in its periodic [Contingent Liabilities Report](#). Based on Table 9 of the report, **Figure 1** provides credit redemption history and projections for the program on a fiscal year basis. The blue bars of **Figure 2** indicate the actual credit redemptions, while the red bars are the IDR projections of future redemptions. The figures do not include the Supplemental Research Activities Tax Credit.

Figure 1 — Research Activities Tax Credit History

*Projected

Fiscal Year	Tax Credit Redemptions	Fiscal Year	Tax Credit Redemptions
FY 2009	\$ 51,096,789	FY 2019	\$ 84,285,676
FY 2010	16,129,366	FY 2020	79,773,792
FY 2011	44,865,730	FY 2021	47,662,144
FY 2012	36,962,435	FY 2022	41,969,057
FY 2013	40,463,714	FY 2023	41,253,307
FY 2014	48,399,022	FY 2024*	86,411,869
FY 2015	60,644,335	FY 2025*	51,358,159
FY 2016	59,734,465	FY 2026*	47,148,358
FY 2017	75,636,933	FY 2027*	43,451,243
FY 2018	72,370,984	FY 2028*	38,499,854

Figure 2 — Research Activities Tax Credit History

*Projected

