**Regulatory Analysis**

Notice of Intended Action to be published: 261—Chapter 82
"Research and Development Tax Credit Program"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 15.106A and 15.523 as amended by 2025 Iowa Acts, Senate File 657

State or federal law(s) implemented by the rulemaking: Chapter 15, subchapter II, part 35 as enacted by 2025 Iowa Acts, Senate File 657

*Public Hearing*

A public hearing at which persons may present their views orally or in writing will be held as follows:

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| November 4, 2025 | 1963 Bell Avenue |
| 2 to 2:15 p.m. | Des Moines, Iowa |

*Public Comment*

Any interested person may submit written comments concerning this Regulatory Analysis, which must be received by the Economic Development Authority (Authority) no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Lisa Connell
Iowa Economic Development Authority
1963 Bell Avenue, Suite 200
Des Moines, Iowa 50315
Email: lisa.connell@iowaeda.com

*Purpose and Summary*

The Authority proposes to adopt a new Chapter 82 to describe the policies and procedures applicable to the research and development tax credit program created pursuant to Iowa Code chapter 15, subchapter II, part 35 as enacted by 2025 Iowa Acts, Senate File 657. The program provides incentives to businesses that conduct qualified research and development in Iowa.

*Analysis of Impact*

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

Businesses interested in applying for certification or that are certified as qualified businesses through the program will bear the costs of the rulemaking.

- **Classes of persons that will benefit from the proposed rulemaking:**

Businesses interested in applying for certification or that are certified through the program will benefit from the rulemaking.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

Businesses interested in applying for certification may require staff time to complete an application. Certified businesses may similarly incur costs to comply with reporting and monitoring requirements of the program as well as to apply for tax credits annually. Some businesses may choose to rely on an external service provider such as an accountant to complete these tasks. The amount of

the costs will vary depending on the compensation of staff or service providers involved. Businesses applying for tax credits will also incur costs to engage a certified public accountant to verify eligible costs as required by Iowa Code section 15.523(4) as enacted by 2025 Iowa Acts, Senate File 657.

- **Qualitative description of impact:**

The program provides an incentive for businesses to conduct research and development in the State.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

Authority staff time is required to review and approve applications for certification and tax credits, issue tax credit certificates, review reports, and communicate with program applicants and recipients.

- **Anticipated effect on State revenues:**

The rules have no anticipated impact on State revenues. Up to $40 million total in tax credits may be authorized by the Authority for this program each fiscal year.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Only businesses that will potentially benefit from the program bear the costs of the rulemaking. The costs to the State to administer the program are proportional to the activities supported.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

The Authority has not identified any less costly methods or less intrusive methods for administering the program.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Authority did not consider any other methods.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

The Authority did not consider any other methods.

*Small Business Impact*

**If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:**

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

**If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?**

The rulemaking impacts only small businesses seeking certification as qualified businesses. The rules regarding compliance and reporting requirements are no more stringent than necessary to implement the purposes of the program. The rules do not establish schedules or deadlines. The rules do not establish design or operational standards.

*Text of Proposed Rulemaking*

ITEM 1. Adopt the following **new** 261—Chapter 82:

CHAPTER 82
RESEARCH AND DEVELOPMENT TAX CREDIT PROGRAM

**261—82.1(15E) Definitions.** For purposes of this chapter, unless the context otherwise requires:

*"Authority"* means the economic development authority created in Iowa Code section 15.105.

*"Director"* means the director of the authority.

*"Eligible expenditures"* means the same as defined in Iowa Code section 15.521 as enacted by 2025 Iowa Acts, Senate File 657.

*"Foreign adversary"* means a foreign government or foreign non-government person as determined in 15 CFR §7.4 or 15 CFR §791.4 at any time on or after March 4, 2024, and that is listed in 15 CFR §7.4(a) or 15 CFR §791.4(a) at any time on or after March 4, 2024.

*"Foreign adversary entity"* means a foreign business subject to the jurisdiction of or organized under the laws of a foreign adversary or a foreign business owned, directed, or controlled by a foreign adversary.

*"Foreign business"* means the same as defined in Iowa Code section 9I.1.

*"Program"* means the research and development tax credit program administered pursuant to this chapter and Iowa Code chapter 15, subchapter II, part 35 as enacted by 2025 Iowa Acts, Senate File 657.

*"Qualified business"* means the same as defined in Iowa Code section 15.521 as enacted by 2025 Iowa Acts, Senate File 657.

*"Qualified research and development"* means the same as defined in Iowa Code section 15.521 as enacted by 2025 Iowa Acts, Senate File 657.

**261—82.2(15E) Certification of qualified businesses.**

**82.2(1)** *Eligibility for certification as a qualified business.* A business shall meet all of the criteria in Iowa Code section 15.522 as enacted by 2025 Iowa Acts, Senate File 657, to be eligible for certification as a qualified business. Additionally, a foreign business shall demonstrate that it is not associated with a foreign adversary or foreign adversary entity.

**82.2(2)** *Additional sectors.* Any individual or business may request in writing that the authority include an additional sector or sectors to the list of sectors available for the credit pursuant to Iowa Code section 15.522(2). The authority may initiate the administrative rule process to include an additional sector or sectors in response to such a request or on its own initiative. A business engaged in a sector included by rule pursuant to this subrule shall not apply for certification as a qualified business until after the effective date of the rulemaking to include that sector.

**82.2(3)** *Application for certification.* A qualified business shall apply to the authority for certification as a qualified business as prescribed by the authority. An applicant shall apply on behalf of all entities in a consolidated group for state or federal tax filing purposes. The application for certification will include the following information:

*a.* A description of the general nature of the business's operations.

*b.* The location of the principal business operations, any Iowa business locations, and whether the business conducts research and development at any locations outside Iowa.

*c.* Information that demonstrates that the business's primary operations are in a qualified industry and sector pursuant to Iowa Code section 15.522 as enacted by 2025 Iowa Acts, Senate File 657. Such evidence may include but is not limited to whether the business has a North American industry classification system (NAICS) number aligned with the relevant industries and sectors as determined by the authority. Businesses with other NAICS numbers will be required to document to the authority's satisfaction that the business is primarily engaged in an applicable industry and sector identified in Iowa Code section 15.522 as enacted by 2025 Iowa Acts, Senate File 657, based on factors including but not limited to sources of revenue and customer base.

*d.* Information that demonstrates that the business is actively engaged in qualified research and development in Iowa.

*e.* Information about employment of the qualified business.

*f.* The identity of any entities included as part of a controlled group/group of trades or businesses under common control that is required to compute the federal research and development credit as one taxpayer per IRC §41(f)(1).

*g.* A signed statement from an officer, director, manager, member, or general partner of the qualified business certifying the accuracy of the information provided.

*h.* Any other information or documentation as the authority may reasonably require to determine the business's eligibility for certification as a qualified business and whether research and development conducted by the business is qualified research and development.

**82.2(4)** *Authority review and notice of certification.*

*a.* The authority shall make its best efforts to determine whether a business will be certified as a qualified business within 90 days of receipt of all information and documentation necessary to demonstrate satisfaction of the criteria set forth in Iowa Code section 15.522 as enacted by 2025 Iowa Acts, Senate File 657. The authority may conduct site visits to assess the eligibility of the business and the research conducted by the business.

*b.* The authority will determine whether an applicant for certification has a record of violations of the law that over a period of time tends to show a consistent pattern or that establishes intentional, criminal, or reckless conduct in violation of such laws. An applicant that has such a record of violations of the law will be ineligible for certification.

*c.* Authority staff will make recommendations for approval or denial of applications for certification. The director may approve, deny, or defer an application for certification.

*d.* Approval of certification by the director shall be contingent upon execution of an agreement with the authority within 45 days of transmittal of the agreement. The time limit for execution may be extended by the director for an additional 45 days for good cause shown. Upon expiration of the time limit, including any extension, approval of certification of a qualified business shall be rescinded.

*e.* Following execution of an agreement pursuant to paragraph 82.2(4)*"b,"* the authority will issue written notice to the qualified business that such business has been certified with the authority for the purpose of the program. The authority will indicate in its written notice the first tax year for which eligible expenditures may be eligible for a tax credit.

**82.2(5)** *Revocation and expiration of certification.*

*a.* A certified qualified business shall provide any information as the authority may reasonably request to confirm the business's continued eligibility for certification as a qualified business and whether the business continues to be actively engaged in qualified research and development.

*b.* If a qualified business fails to meet or maintain any requirement set forth in the agreement entered pursuant to Iowa Code section 15.523(3), this chapter, or Iowa Code chapter 15, subchapter II, part 35 as enacted by 2025 Iowa Acts, Senate File 657, the authority may suspend or revoke the business's certification as a qualified business by issuing written notice to the business. The notice will identify the last date on which the business was eligible to be certified as a qualified business. If certification is revoked, the notice will identify the first date on which the business will be eligible to reapply for certification. If certification is suspended, the notice will identify the proposed end date of the suspension. A business may not apply for a tax credit for eligible expenditures incurred after the effective date of revocation or during the effective period of suspension.

*c.* The written notice of certification issued pursuant to paragraph 82.2(3)*"e"* will include the date the authority expects the certification to expire if a business continues to satisfy all eligibility requirements. Certification may expire up to five years from the date of the notice. If a determination cannot be made that the qualified business intends to engage in qualified research and development for five years, the authority may approve certification for less than five years.

*d.* A business may submit an application for recertification and be approved for recertification by the authority.

*e.* If a business's certification as a qualified business expires, expenditures made after the expiration date will not be eligible for a tax credit.

**82.2(6)** *Reporting.* The authority may, at any time, request additional information and documentation from a qualified business to meet the authority's reporting obligations pursuant to Iowa Code section 15.525 as enacted by 2025 Iowa Acts, Senate File 657, or required to prepare any other reports to be provided to the governor and the general assembly.

**261—82.3(15E) Application and review process for tax credits.**

**82.3(1)** *Annual business application.* The annual application submitted by qualified businesses will include:

*a.* A report from the business of any changes to the information provided in the application for certification pursuant to subrule 82.2(2).

*b.* Documentation of the amount of the eligible expenditures that were included in Section F of Internal Revenue Form 6765 that was submitted with the qualified business's most recently filed and accepted federal tax return.

*c.* Verification of eligible expenditures by an independent certified public accountant (CPA) authorized to practice in this state. The independent certified public accountant shall not be an employee of the qualified business or of a related entity. The procedures used by the CPA to conduct the verification should allow the CPA to conclude that, in the CPA's professional judgment, the expenditures claimed are eligible pursuant to the agreement entered pursuant to Iowa Code section 15.523(3) as enacted by 2025 Iowa Acts, Senate File 657; Iowa Code chapter 15, subchapter II, part 35 as enacted by 2025 Iowa Acts, Senate File 657; and all rules adopted pursuant to Iowa Code chapter 15, subchapter II, part 35, and 2025 Iowa Acts, Senate File 657 in all material respects. Within ten business days of a request by the authority, the qualified business shall make available to the authority the documents reviewed by the CPA unless good cause is shown.

*d.* A signed statement from an officer, director, manager, member, or general partner of the qualified business certifying the accuracy of the information provided; and

*e.* Any other information as the authority may reasonably require to determine the business's continued eligibility for certification as a qualified business and whether the business continues to be actively engaged in qualified research and development.

**82.3(2)** *Staff review.* Authority staff will verify the continued eligibility of qualified businesses and the amount of eligible expenditures incurred by qualified businesses prior to approval of tax credits by the director.

**82.3(3)** *Tax credit calculation.* The annual tax credit award for each qualified business shall equal its unadjusted credit or its adjusted credit, whichever is less.

*a. Unadjusted credit.* The unadjusted credit for a qualified business equals its eligible expenditures multiplied by the tax credit rate provided in the agreement, not to exceed 3.5 percent.

*b. Adjusted credit.* To calculate the adjusted credit for a qualified business, first divide the qualified business's eligible expenditures by the total eligible expenditures incurred by all qualified businesses with approved tax credit applications for the fiscal year. Next, multiply that quotient by the amount of tax credits available pursuant to Iowa Code section 15.119 for the fiscal year after reduction for the set aside, if any, of tax credits for additional awards pursuant to subrule 82.3(4). That product, plus any additional tax credits awarded to the qualified business for the fiscal year pursuant to subrule 82.3(4), equals a qualified business's adjusted credit.

EXAMPLE: For purposes of this example, assume that the total available tax credits for the fiscal year is $40,000,000, and the authority does not set aside any of that amount for additional awards pursuant to subrule 82.3(4). Also assume that the total eligible expenditures incurred by all qualified businesses with approved tax credit applications for the fiscal year is $2,000,000,000. A qualified business submits an annual tax credit application with $10,000,000 of eligible expenditures, and the tax credit rate in its agreement is 3.5 percent. The qualified business's unadjusted credit equals $350,000 ($10,000,000 × 0.035). The qualified business's adjusted credit equals $200,000

(($10,000,000 / $2,000,000,000) × $40,000,000). Therefore, the qualified business's annual tax credit award will be $200,000.

**82.3(4)** *Set aside of tax credits for additional awards.* The authority may set aside up to 5 percent of the amount of tax credits available pursuant to Iowa Code section 15.119 for the fiscal year to be awarded as additional tax credits to qualified businesses. The authority will determine the total amount of the set aside, if any, and the amount of additional tax credits to be awarded to qualified businesses. Factors the authority will consider in determining whether to award additional tax credits to a qualified business include but are not limited to whether the qualified business recently located in or expanded in Iowa and the economic impact of the qualified business, its facility or facilities in Iowa, and the qualified research and development.

**82.3(5)** *Application decisions.* The director may approve, deny, or defer an application for tax credits. Applications for tax credits may be denied under the following circumstances:

*a.* The qualified business has not continued to engage in the qualified research and development proposed in its application for certification.

*b.* The qualified business experiences a business closure or experiences a mass layoff for which notice is required under Iowa Code chapter 84C.

*c.* The authority determines the qualified business has a record of violations of the law that over a period of time tends to show a consistent pattern or that establishes intentional, criminal, or reckless conduct in violation of such laws.

**261—82.4(15E) Tax credit certificates.**

**82.4(1)** *Issuance by the authority.* The authority will issue tax credit certificates to qualified businesses pursuant to Iowa Code section 15.524 as enacted by 2025 Iowa Acts, Senate File 657. Tax credit certificates will be issued to the qualified businesses that applied for certification.

**82.4(2)** *Vested right.* A taxpayer does not obtain a vested right in a tax credit until a certificate has been issued by the authority.

**82.4(3)** *Claiming a tax credit.* An investor that has been issued a tax credit certificate by the authority may claim the credit in accordance with any applicable rules adopted by the department of revenue.

**82.4(4)** *Changes to federal credit.*

*a.* The qualified business shall notify the authority of any reduction of the federal credit for increasing research activities under Section 41 of the Internal Revenue Code or reduction of qualified research expenditures for the federal credit that occurs after certification as a qualified business. Such notice is required whether the reduction is the result of review of the credit initiated by the Internal Revenue Service or an amendment to the qualified business's tax return initiated by the qualified business. The qualified business must provide notice to the authority within 30 days of the final determination date as defined in Iowa Code section 422.25.

*b.* Following a report to the authority that the federal credit or qualified research expenditures for the purposes of the federal credit have been reduced, a qualified business must submit a supplemental verification of eligible expenditures by an independent CPA authorized to practice in this state conducted in accordance with the procedures identified in subrule 82.3(1). The supplemental verification shall detail the impact of the disallowed credit on the amount of eligible expenditures, if any. The authority may waive the requirement to submit supplemental verification if all qualified expenditures on which the federal credit was claimed occurred in Iowa, if the qualified business agrees to a reduced tax credit consistent with a reduction in qualified research expenditures as determined by the authority, or if sufficient information is otherwise available to determine the impact on the state credit.

*c.* If the supplemental CPA verification submitted pursuant to paragraph 82.4(4)*"b"* demonstrates a reduction in eligible expenditures, the tax credit available through the program shall be reduced to an amount calculated by multiplying the adjusted credit percentage determined pursuant to subrule 82.3(3) by the reduced amount of eligible expenditures. Any additional award pursuant to

subrule 82.3(4) will be reduced in the same way. If sufficient information is not available to determine the reduced amount of eligible expenditures, the authority may wholly rescind a tax credit available under the program.

*d.* The tax credit available through the program shall not be increased based on an increase in the federal credit for increasing research activities under Section 41 of the Internal Revenue Code claimed by a qualified business.

**261—82.5(15) Mass layoffs and business closures.**

**82.5(1)** Pursuant to Iowa Code section 15.112 as enacted by 2025 Iowa Acts, Senate File 657, the authority may reduce or eliminate some or all of a tax credit approved through the program under the following circumstances:

*a.* A qualified business closes a facility in Iowa.

*b.* A qualified business experiences a mass layoff for which notice is required under Iowa Code chapter 84C that directly impacts its qualified research and development conducted in Iowa.

*c.* A qualified business experiences a mass layoff for which notice is required under Iowa Code chapter 84C that represents a significant portion of the qualified business's employees in Iowa.

**82.5(2)** The authority may deny certification or recertification of a qualified business under the circumstances identified in subrule 82.5(1).

**82.5(3)** Factors the authority may consider when determining whether to exercise its discretion under this rule include but are not limited to the percentage of the qualified business's workforce affected; the total number of employees involved; whether the action is seasonal, temporary, or permanent; whether employees are relocated to other Iowa facilities; the reasons causing the mass layoff or business closure; and the impact on the qualified business's qualified research and development conducted in Iowa, the community in which the mass layoff or business closure occurred, and the state.

These rules are intended to implement Iowa Code chapter 15, subchapter II, part 35 as enacted by 2025 Iowa Acts, Senate File 657.