

422.10 Research activities credit.

1. The taxes imposed under [this division](#) shall be reduced by a state tax credit for increasing research activities in this state.

a. An individual shall only be eligible for the credit provided in [this section](#) if the business conducting the research meets all of the following requirements:

(1) (a) The business is engaged in the manufacturing, life sciences, software engineering, or aviation and aerospace industry.

(b) Persons that shall not be considered to be engaged in the manufacturing, life sciences, software engineering, or aviation and aerospace industry, and thus are not eligible for the credit, include but are not limited to all of the following:

(i) A person engaged in agricultural production as defined in [section 423.1](#).

(ii) A person who is a contractor, subcontractor, builder, or a contractor-retailer that engages 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. For purposes of this subparagraph subdivision, “*contractor-retailer*” means a business that makes frequent retail sales to the public or to other contractors and that also engages in the performance of construction contracts.

(iii) A finance or investment company.

(iv) A retailer.

(v) A wholesaler.

(vi) A transportation company.

(vii) A publisher.

(viii) An agricultural cooperative association as defined in [section 502.102](#).

(ix) A real estate company.

(x) A collection agency.

(xi) An accountant.

(xii) An architect.

(2) The business claims and is allowed a research credit for such qualified research expenses under section 41 of the Internal Revenue Code for the same taxable year as it is claiming the credit provided in [this section](#).

b. (1) For individuals, the credit equals the sum of the following:

(a) Six and one-half percent of the excess of qualified research expenses during the tax year over the base amount for the tax year based upon the state’s apportioned share of the qualifying expenditures for increasing research activities.

(b) Six and one-half percent of the basic research payments determined under section 41(e)(1)(A) of the Internal Revenue Code during the tax year based upon the state’s apportioned share of the qualifying expenditures for increasing research activities.

(2) The state’s apportioned share of the qualifying expenditures for increasing research activities is a percent equal to the ratio of qualified research expenditures in this state to total qualified research expenditures.

c. In lieu of the credit amount computed in paragraph “b”, subparagraph (1), subparagraph division (a), a taxpayer may elect to compute the credit amount for qualified research expenses incurred in this state in a manner consistent with the alternative simplified credit described in section 41(c)(5) of the Internal Revenue Code. The taxpayer may make this election regardless of the method used for the taxpayer’s federal income tax. The election made under this paragraph is for the tax year and the taxpayer may use another or the same method for any subsequent year.

d. For purposes of the alternate credit computation method in paragraph “c”, the credit percentages applicable to qualified research expenses described in section 41(c)(5)(A) and clause (ii) of section 41(c)(5)(B) of the Internal Revenue Code are four and fifty-five hundredths percent and one and ninety-five hundredths percent, respectively.

2. For purposes of [this section](#), an individual may claim a research credit incurred by a partnership, S corporation, limited liability company, estate, or trust electing to have the income taxed directly to the individual. The amount claimed by the individual shall be based

upon the pro rata share of the individual's earnings of a partnership, S corporation, limited liability company, estate, or trust.

3. a. For purposes of [this section](#), “*base amount*” means the product of the fixed-based percentage times the average annual gross receipts of the taxpayer for the four taxable years preceding the taxable year for which the credit is being determined, but in no event shall the base amount be less than fifty percent of the qualified research expenses for the credit year.

b. For purposes of [this section](#), “*basic research payment*” and “*qualified research expense*” mean the same as defined for the federal credit for increasing research activities under section 41 of the Internal Revenue Code, except that for the alternative simplified credit such amounts are for research conducted within this state.

4. Any credit in excess of the tax liability imposed by [section 422.5](#) less the amounts of nonrefundable credits allowed under [this division](#) for the taxable year shall be refunded with interest in accordance with [section 421.60, subsection 2](#), paragraph “e”. In lieu of claiming a refund, a taxpayer may elect to have the overpayment shown on the taxpayer's final, completed return credited to the tax liability for the following taxable year.

5. An individual may claim an additional research activities credit authorized pursuant to [section 15.335](#) if the eligible business is a partnership, S corporation, limited liability company, or estate or trust which elects to have the income taxed directly to the individual. The amount of the credit shall be as provided in [section 15.335](#).

6. The department shall by February 15 of each year issue an annual report to the general assembly containing the total amount of all claims made by employers under [this section](#) and the portion of the claims issued as refunds, for all claims processed during the previous calendar year. The report shall contain the name of each claimant for whom a tax credit in excess of five hundred thousand dollars was issued and the amount of the credit received.

83 Acts, ch 179, §8, 25; 85 Acts, ch 230, §5; 86 Acts, ch 1007, §22; 87 Acts, 2nd Ex, ch 1, §10; 88 Acts, ch 1028, §21; 90 Acts, ch 1171, §3; 91 Acts, ch 159, §10; 91 Acts, ch 215, §2; 93 Acts, ch 113, §2, 4; 94 Acts, ch 1166, §7, 11; 95 Acts, ch 152, §4, 7; 97 Acts, ch 23, §43; 97 Acts, ch 135, §6, 9; 98 Acts, ch 1078, §6, 10; 99 Acts, ch 95, §7, 12, 13; 2000 Acts, ch 1146, §4, 9, 11; 2000 Acts, ch 1194, §9, 21; 2001 Acts, ch 127, §6, 9, 10; 2002 Acts, ch 1069, §7, 10, 14; 2003 Acts, ch 139, §7, 11, 12; 2004 Acts, ch 1073, §17; 2005 Acts, ch 24, §6, 10, 11; 2006 Acts, ch 1140, §5, 10, 11; 2006 Acts, ch 1158, §14, 15; 2007 Acts, ch 12, §4, 7, 8; 2008 Acts, ch 1011, §5, 9; 2009 Acts, ch 179, §131, 153, 233; 2011 Acts, ch 41, §11, 12, 14, 16; 2012 Acts, ch 1007, §4, 7, 8; 2013 Acts, ch 1, §4, 7, 8; 2014 Acts, ch 1076, §3, 6, 7; 2015 Acts, ch 1, §4, 7, 8; 2017 Acts, ch 157, §5, 12, 14; 2018 Acts, ch 1161, §4, 15, 16, 32 – 34, 43, 45, 85, 97, 98

Referred to in [§2.48](#), [15.335](#), [422.5](#), [422.16](#)

Internal Revenue Code definition is updated regularly; for applicable definition in a prior tax year, refer to Iowa Acts and Code for that year

For provisions relating to the definition of Internal Revenue Code for the period beginning January 1, 2015, and ending December 31, 2015, and for tax years beginning during the 2015 calendar year, see 2016 Acts, ch 1007, §1, 4, 5

2017 amendment to former subsection 3, paragraph b, changing a date reference to January 1, 2016, takes effect May 11, 2017, and applies retroactively to January 1, 2016, for tax years beginning on or after that date; 2017 Acts, ch 157, §12, 14

Subsection 1, paragraph a, applies retroactively to January 1, 2017, for tax years beginning on or after that date; 2018 Acts, ch 1161, §45
Legislative intent regarding 2018 enactment of subsection 3, paragraph a, and amendment of subsection 3, paragraph b; 2018 Acts, ch 1161, §41

2018 strike of former subsection 3, paragraph b, is effective January 1, 2019, and applies to tax years beginning on or after that date; 2018 Acts, ch 1161, §97, 98

2018 amendment to subsection 4 applies retroactively to January 1, 2018, for tax years beginning, and for refunds issued, on or after that date; 2018 Acts, ch 1161, §16

Subsection 1, NEW paragraph a and former paragraphs a – c redesignated as b – d

Subsection 3, NEW paragraph a and former paragraph a amended and redesignated as b

Subsection 3, former paragraph b stricken

Subsection 4 amended