

422.10 Research activities credit.

1. The taxes imposed under [this subchapter](#) 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, agriscience, software engineering, or aviation and aerospace industry.

(b) Persons that shall not be considered to be engaged in the manufacturing, life sciences, agriscience, 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](#).

(3) The credit provided in [this section](#) is claimed on a return filed by the due date for filing the return, including extensions of time. If timely claimed, the business shall not increase the credit claim on an amended return or otherwise unless either of the following apply:

(a) The amended return is filed within six months of the due date for filing the return which includes extensions of time.

(b) The increase results from an audit or examination by the internal revenue service or the department.

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.

(3) For the purpose of calculating the state’s apportioned share of the qualifying expenditures for increasing research activities in subparagraph (2), the following criteria shall apply only to the determination of qualified research expenditures in this state:

(a) Wages paid to an employee for qualified services, or contract research expenses paid to a third party for the performance of qualified research services, shall only constitute qualified research expenses in this state if the services are performed in this state, and if the following conditions are met, as applicable:

(i) For qualified services performed by employees, during the period of the tax year that the business is engaging in one or more research projects, a majority of the total services performed by the employee for the business are directly related to those research projects.

(ii) For the performance of qualified research services by a third party, during the period of the business's tax year that the third party is performing research services for the business, a majority of the total services performed by the person for the third party are directly related to those research projects of the business.

(b) The substantially all rule for determining qualified services as described in section 41(b)(2)(B) of the Internal Revenue Code and [Treas. Reg. 1.41-2\(d\)\(2\)](#) does not apply.

(c) Amounts paid for the right to use computers as described in section 41(b)(2)(A)(iii) of the Internal Revenue Code shall not be qualified research expenses in this state.

(d) For tax years beginning on or after January 1, 2023, but before January 1, 2027, amounts paid for supplies as defined in section 41(b)(2)(C) of the Internal Revenue Code shall only constitute qualified research expenses in this state if the supplies directly relate to research performed in this state and shall be limited to the following allowable percentages:

(i) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, eighty percent of the amounts paid for supplies directly related to research performed in this state.

(ii) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, sixty percent of the amounts paid for supplies directly related to research performed in this state.

(iii) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, forty percent of the amounts paid for supplies directly related to research performed in this state.

(iv) For the tax year beginning on or after January 1, 2026, but before January 1, 2027, twenty percent of the amounts paid for supplies directly related to research performed in this state.

(e) For tax years beginning on or after January 1, 2027, amounts paid for supplies as defined in section 41(b)(2)(C) of the Internal Revenue Code shall not be qualified research expenses in this state.

c. In lieu of the credit amount computed in paragraph "b", subparagraph (1), subparagraph division (a), a taxpayer shall 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)(4) of the Internal Revenue Code if the taxpayer elected or was required to use the alternative simplified credit method for federal income tax purposes for the same taxable year.

d. For purposes of the alternate credit computation method in paragraph "c", the following criteria shall apply:

(1) The credit percentages applicable to qualified research expenses described in section 41(c)(4)(A) and clause (ii) of section 41(c)(4)(B) of the Internal Revenue Code are four and fifty-five hundredths percent and one and ninety-five hundredths percent, respectively.

(2) Basic research payments and qualified research expenses shall only include amounts for research conducted in this state. A taxpayer's qualified research expenses in this state and average prior year qualified research expenses in this state shall be determined in accordance with the criteria in [subsection 1](#), paragraph "b", subparagraph (3).

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 as otherwise described in [subsection 1](#), paragraph “b”, subparagraph (3), and [subsection 1](#), paragraph “d”, subparagraph (2).

4. a. (1) The following percentage of any credit in excess of the tax liability imposed by [section 422.5](#) less the amounts of nonrefundable credits allowed under [this subchapter](#) for the taxable year shall be refunded with interest in accordance with [section 421.60, subsection 2](#), paragraph “e”:

(a) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, ninety percent.

(b) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, eighty percent.

(c) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, seventy percent.

(d) For the tax year beginning on or after January 1, 2026, but before January 1, 2027, sixty percent.

(2) In lieu of claiming a refund pursuant to this paragraph, a taxpayer may elect to have the overpayment otherwise eligible for a refund shown on the taxpayer’s final, completed return credited to the tax liability for the following taxable year.

b. Commencing with tax years beginning on or after January 1, 2027, fifty percent of any credit in excess of the tax liability imposed by [section 422.5](#) less the amounts of nonrefundable credits allowed under [this subchapter](#) 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 otherwise eligible for a refund shown on the taxpayer’s final, completed return credited to the tax liability for the following taxable year.

c. In applying the credit in [this section](#) against tax liability and computing the eligible refund amount, the credit shall be applied after all nonrefundable credits available to the taxpayer are applied, but before any other refundable credit available to the taxpayer is applied.

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; 2019 Acts, ch 152, §57, 58; 2020 Acts, ch 1062, §94; 2020 Acts, ch 1118, §57, 59, 60; 2022 Acts, ch 1002, §33 – 37, 43, 44

Referred to in §2.48, 15.335, 422.16

2020 amendment to subsection 1, paragraphs c and d applies retroactively to January 1, 2019, for tax years beginning on or after that date; 2020 Acts, ch 1118, §60

Subsection 1, paragraph a, subparagraph (3) effective January 1, 2023, and applies to tax years beginning on or after January 1, 2023; 2022 Acts, ch 1002, §43, 44

Subsection 1, paragraph b, subparagraph (3) effective January 1, 2023, and applies to tax years beginning on or after January 1, 2023; 2022 Acts, ch 1002, §43, 44

2022 amendment to subsection 1, paragraphs c and d effective January 1, 2023, and applies to tax years beginning on or after January 1, 2023; 2022 Acts, ch 1002, §43, 44

2022 amendment to subsection 3, paragraph b effective January 1, 2023, and applies to tax years beginning on or after January 1, 2023; 2022 Acts, ch 1002, §43, 44

2022 amendment to subsection 4 effective January 1, 2023, and applies to tax years beginning on or after January 1, 2023; 2022 Acts, ch 1002, §43, 44