



Iowa Department of **REVENUE**

Research Activities Tax Credit Annual Report For the Period January 1 – December 31, 2014

Reporting Requirements

Iowa Code sections 422.10(b), 422.33(5)(h), and 15.335(9) require the Iowa Department of Revenue to produce an annual report on individuals and corporations that claim the Iowa Research Activities Tax Credit. This report considers Research Activities Tax Credit and Supplemental Research Activities Tax Credit claims filed during calendar year 2014.

By law, the Department must report:

- The total amount of Research Activities Tax Credit and Supplemental Research Activities Tax Credit claims.
- The total amount of Research Activities Tax Credit and Supplemental Research Activities Tax Credit claims paid as refunds.
- The name of each claimant for whom a Research Activities Tax Credit in excess of \$500,000 was issued and the amount of the tax credit received.

Tax Credit Eligibility

To qualify for the Iowa Research Activities Tax Credit, in accordance with Internal Revenue Code Section 41, businesses must conduct research in Iowa that is:

- Experimental;
- Undertaken to discover information that is technological in nature; and
- Aimed at the development of a new product.

Qualified research expenditures include expenses incurred in Iowa on:

- Wages;
- The cost of supplies;
- The rental or lease cost of personal property; and
- Contract expenses.

The research tax credit is an incremental credit, which means only research expenditures that exceed a base amount are eligible for the credit. In addition to the Research Activities Tax Credit, companies can also be awarded the Supplemental Research Activities Tax Credit by the Iowa Economic Development Authority.

Research Activities Tax Credit

The regular Research Activities Tax Credit equals 6.5 percent of qualified research expenditures that exceed the larger of a base amount or 50 percent of current year expenditures.

For example, consider a company with a base research amount of \$5 million which conducts \$10 million in qualified research in Iowa during calendar year 2014. The company is eligible to claim a tax credit equal to 6.5 percent of its incremental research expenditures.

2014 Qualified Research Expenditures:		\$10,000,000
Base Research Expenditure Amount:	-	<u>\$ 5,000,000</u>
Incremental Qualified Research Expenditures:		\$ 5,000,000

Research Activities Tax Credit $\$5,000,000 \times .065 = \$325,000$

The company can claim a Research Activities Tax Credit of \$325,000 against its income tax liability.

For tax years 2010 or later, eligible companies may use the regular method (using IA 128) or the Alternative Simplified Research Credit method (using IA 128S) to calculate their tax credit.

Supplemental Research Activities Tax Credit

Iowa Code Section 15.335 specifies that for Enterprise Zone and High Quality Jobs tax credit awards made prior to July 1, 2010, the Supplemental Research Activities Tax Credit equals an additional 6.5 percent of qualifying incremental research expenditures made in the State, but may be subject to a per project cap set by the Iowa Economic Development Authority.

For Enterprise Zone and High Quality Jobs awards made after July 1, 2010, the amount of the supplemental tax credit depends upon the annual gross revenue of the business. Under the regular calculation method, businesses with annual gross revenues of less than \$20 million can claim a supplemental credit up to an additional 10 percent of qualifying incremental research expenditures made in the State. For businesses with annual gross revenues of \$20 million or more, the supplemental tax credit is up to an additional 3 percent.

Companies claiming the Supplemental Research Activities Tax Credit must compute the supplemental credit using the method they used to compute the Research Activities Tax Credit, either the regular or the alternative simplified method.

Claiming the Tax Credit

Although Research Activities Tax Credits are only applicable for qualifying business research expenditures, individuals with an ownership interest in pass-through entities such as limited liability companies, S corporations, and partnerships may qualify to claim a portion of the tax credits earned by one or more businesses. Both the Research Activities Tax Credit and the Supplemental Research Activities Tax Credit are refundable, which means the taxpayer can claim the entire tax credit even if the claim exceeds current year tax liability.

In addition to filing the IA 1040 for individuals, or form IA 1120 for corporations, all claimants must complete the IA 148 Tax Credits Schedule and one of the following supporting forms in order to claim a Research Activities Tax Credit:

- Form IA 128 – Iowa Research Activities Tax Credit (Regular Calculation Method), or
- Form IA 128S – Iowa Alternative Simplified Research Activities Tax Credit.

The Department uses the information provided on the forms listed above and the IA 148 Tax Credits Schedule to obtain the data for this report. Some data from tax returns filed between January 1, 2014 and December 31, 2014 may be missing from the report since data from returns not filed electronically may not yet have been entered into the tax credits database. Although the Department has reviewed the data for obvious computational errors and made any necessary corrections, not all returns and forms have undergone a formal audit.

Summary of Research Activities Tax Credit Claims, Refunds, and Expenditures

The following is a summary of Research Activities Tax Credit and Supplemental Research Activities Tax Credit claims filed between January 1, 2014 and December 31, 2014 by the tax type against which the tax credits were claimed.

Table 1. Research Activities Tax Credit Claims
1/1/2014 – 12/31/2014

	Tax Credit Claims					
	Individual		Corporation		Total	
	Number	Amount	Number	Amount	Number	Amount
Research Activities Tax Credits	777	\$5,588,351	248	\$44,850,110	1,025	\$50,438,461
Supplemental Research Activities Tax Credits	69	\$346,176	17	\$6,133,393	86	\$6,479,569
Total Research Activities Tax Credits	846	\$5,934,527	265	\$50,983,503	1,111	\$56,918,030

Note: Tax credit claim numbers are preliminary
Source: IA 148 Tax Credit Schedule

Tax credit refunds reflect the portion of tax credit claims which exceeded the taxpayers' Iowa tax liability.

Table 2. Research Activities Tax Credit Refunds

1/1/2014 – 12/31/2014

	Tax Credit Refunds					
	Individual		Corporation		Total	
	Number	Amount	Number	Amount	Number	Amount
Research Activities Tax Credits	217	\$2,232,698	181	\$29,539,705	398	\$31,772,403
Supplemental Research Activities Tax Credits	9	\$152,236	15	\$5,255,931	24	\$5,408,167
Total Research Activities Tax Credits	226	\$2,384,934	196	\$34,795,636	422	\$37,180,570

Note: Tax credit refund numbers are preliminary

Source: IA 148 Tax Credit Schedule

Iowa research expenditures reported by Iowa businesses on the IA128 and IA128S tax credit forms filed during calendar year 2014 total over \$1.6 billion. Wages comprise 64 percent of those research expenditures. The Research Activities Tax Credit and Supplemental Research Activities Tax Credits resulting from the research expenditures average under \$0.04 per dollar of research.

Table 3. Iowa Research Activities Tax Expenditures from Forms IA 128 and IA 128S

01/01/2014 – 12/31/2014

Total Iowa Research Expenditures	Iowa Research Expenditures on Wages	Wage Share of Total Iowa Research Expenditures	Total Research Activities and Supplemental Tax Credits Reported	Tax Credits Reported per Dollar of Research Expenditures in Iowa
\$1,638,852,450	\$1,048,928,441	64.0%	\$58,865,192	\$0.036

Source: Forms IA 128 and IA 128S

The Research Activities Tax Credits and Supplemental Research Activities Tax Credits reported as being earned by businesses filing IA 128 and IA 128S forms during 2014 are slightly higher than the amount claimed. This difference reflects members of pass-through entities earning the credits not yet filing their return to claim their credit on the IA 148 Tax Credits Schedule.

Summary of Selected Tax Credit Claimants

Sixteen companies were issued Research Activities Tax Credits in excess of \$500,000 between January 1, 2014 and December 31, 2014, which includes any Supplemental Research Activities Tax Credit claims. Information for these companies is provided below. Some companies included may be pass-through entities. The credits from a pass-through entity may be claimed by individuals and those amounts would be included under individual claims in Table 1. There are four claimants that met the requirements for the first time since the report was first published for calendar year 2009.

Table 4. Research Activities Tax Credit Large Claimant Details
1/1/2014 – 12/31/2014

Claimant	Claim Amount
Rockwell Collins Inc. & Subsidiaries	\$11,701,722
Deere & Company	\$9,409,743
EI Dupont De Nemours And Company Inc.	\$6,856,050
John Deere Construction & Forestry Company	\$3,234,277
Monsanto Company	\$1,493,410
Bridgestone Americas Inc.	\$1,489,544
CNH America LLC	\$1,287,836
HNI Corporation & Subsidiaries	\$1,257,660
Vermeer Manufacturing Company And Subsidiaries	\$1,172,872
Carleton Life Support Systems, Inc.	\$807,543
Skyworks Solutions, Inc.	\$659,791
Dieomatic, Inc.	\$612,053
Interstate Power and Light Company	\$605,701
Syngenta Seeds Subcon	\$540,466
Whirlpool Corporation	\$511,482
Boehringer Ingelheim Vetmedica Inc.	\$506,133
Total	\$42,146,283

Note: The tax credit claim amount includes both the Research Activities Tax Credit and Supplemental Research Activities Tax Credit that were first claimed during calendar year 2014.