



SF 23 – Research Activities Tax Credit, Refund Limitation (LSB1264XS)
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Fiscal Note Version – New

Description

[Senate File 23](#) limits the aggregate amount of Research Activities Tax Credit that may be refunded to a single taxpayer to no more than \$1.0 million per year. The aggregate limitation also includes any Supplemental Research Activities Tax Credit. The limitation is applied retroactively to tax years beginning on or after January 1, 2019.

Assumptions

- There were 35 Research Activities Tax Credit claims totaling \$160.0 million that represented tax refunds in excess of \$1.0 million for a tax year over the past five tax years. The average of these 35 claims exceeded \$1.0 million by \$3.6 million. The average number of claims each year was seven. Therefore, the average annual total refunded amount each year in excess of \$1.0 million was \$25.2 million.
- An affiliated group of C-Corporations filing a consolidated Iowa tax return will be considered one taxpayer for purposes of the \$1.0 million annual limit.
- Tax filings by taxpayers requesting the refundable tax credits and the processing time of the Department of Revenue will follow the same pattern shown in previous tax years. The pattern has been shown to delay the actual refund associated with the claim for about two fiscal years.
- Refund claims are projected to increase 3.6% per tax year. This is based on historical growth in Research Activities Tax Credit claims.
- Reductions in tax refunds issued will result in an increase in net General Fund revenue.

Fiscal Impacts

A \$1.0 million annual refund limit per taxpayer per fiscal year for the Research Activities Tax Credit (and Supplemental) is expected to reduce such refunds by \$25.2 million per tax year. Due to filing and processing delays, the expected increase in net General Fund revenue is projected to equal \$11.1 million for FY 2021 and \$25.7 million for FY 2022. The projected net revenue increase is projected to grow 3.6% each fiscal year after FY 2022.

The Department of Revenue projects that updating tax forms and additional computer programming costs to implement the \$1.0 million cap will require a one-time Department expenditure of \$16,000.

Source

Iowa Department of Revenue

/s/ Holly M. Lyons

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