
FISCAL TOPICS

Fiscal Services Division

November 17, 2025



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Tax Credit: Research Activities Tax Credit

The Research Activities Tax Credit is based on the rules governing the federal Research and Experimentation Tax Credit. The Iowa credit is based on the ratio of Iowa qualified research expenses for research conducted in Iowa to total qualified research expenses. The Iowa credit is calculated using the same method, either regular or simplified, as the federal credit. The regular method allows a credit of 6.5% of incremental research expenses. The alternative simplified method allows a credit of 4.55% of the excess of current-year qualified research expenses in Iowa over 50.0% of the prior three-year average, or 1.95% of current-year qualified research expenses in Iowa when no prior research has been conducted.

Taxpayers who are approved by the Iowa Economic Development Authority (IEDA) under the High Quality Jobs Program may receive a Supplemental Research Activities Tax Credit. For businesses using the regular method and with annual gross revenue of \$20.0 million or less, the amount of supplemental credit is the sum of 10.0% of the excess of qualified research expenses during the tax year over the base amount for the tax year based on Iowa's apportioned share of the qualifying expenses for increasing research activities, and 10.0% of the basic research payments during the tax year based on Iowa's apportioned share of the qualifying expenses for increasing research activities.

For businesses with gross revenues exceeding \$20.0 million, the amount of the supplemental credits is the sum of 3.0% of the excess of qualified research expenses during the tax year over the base amount for the tax year based on Iowa's apportioned share of the qualifying expenses for increasing research activities and 3.0% of the basic research payments during the tax year based on Iowa's apportioned share of the qualifying expenses for increasing research activities.

For businesses computing the credit using the alternative simplified methodology, the supplemental credit percentages are 7.0% or 3.0% of qualified research expenses that are incurred in Iowa for businesses with annual gross revenues of \$20.0 million or less, and for businesses with annual gross revenues exceeding \$20.0 million, the percentages are 2.1% or 0.9%.

An additional \$2.0 million in Research Activities Tax Credits is available for expenses related to the development and deployment of innovative renewable energy generation components and the deployment of innovative renewable energy generation components manufactured or assembled in Iowa. These expenses are not eligible for the federal Research and Experimentation Tax Credit and are not eligible for the Supplemental Research Activities Tax Credit. A business eligible for this credit must be approved by the IEDA.

The tax credit applies to corporate and individual income taxes and is available to businesses in identified qualifying industries.

More Information

Department of Revenue Contingent Liabilities Report: revenue.iowa.gov/media/4301/download?inline

Department of Revenue Tax Credit Review: revenue.iowa.gov/media/3287/download?inline

Department of Revenue Tax Credits Users' Manual: revenue.iowa.gov/media/3380/download?inline

Legislative Services Agency Individual Income Tax Guide:

legis.iowa.gov/docs/publications/LG/711304.pdf

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Tax Credit Background

- Enabling Legislation: 1983 Iowa Acts, chapter [179](#) (Federal Tax Code Coordination Act)
- Iowa Code Citations:
 - Section [15.119](#) — Awards Limitation for Supplemental Credits
 - Section [15.335](#) — Program Description
 - Section [422.10](#) — Individual Income Tax
 - Section [422.33\(5\)](#) — Corporate Income Tax
- Administrative State Agencies: IEDA and Iowa Department of Revenue (IDR)
- Sunset Date: None
- Transferable: No
- Refundable: Yes
- Carryforward: In lieu of claiming a refund, an overpayment otherwise eligible for a refund may be credited to the tax liability for the following tax year.
- Tax Review Committee Review Year: None

Legislative History

The Research Activities Tax Credit went into effect on January 1, 1985. In tax years 2000 through 2009, taxpayers could elect to take the Alternative Incremental Research Activities Tax Credit, and starting in 2010, taxpayers could elect to take the Alternative Simplified Research Activities Tax Credit. Effective July 1, 2005, an additional \$1.0 million in Research Activities Tax Credits was made available for expenses related to the development and deployment of innovative renewable energy generation components manufactured or assembled in Iowa. Effective July 1, 2009, an additional \$1.0 million was made available for the Renewable Energy Components Research Activities Credit. After July 1, 2009, claimants for whom a tax credit was issued in excess of \$500,000 must be [reported](#) annually to the Legislature. Effective July 1, 2010, the calculation of the Supplemental Research Activities Credit was made conditional on the annual gross revenues of the eligible business. Effective for tax year 2017, eligible researching entities were limited to those within industries specified in Iowa Code section [15.329](#). Effective for tax year 2023, taxpayers are required to use the same method to calculate the Iowa credit that they used to calculate the federal credit.

The Research Activities Tax Credit is no longer awarded effective January 1, 2026. The tax credit will be fully repealed from the Iowa Code on January 1, 2027.

Tax Credit Review, Usage, and Future Liability

The IDR reports on the annual credit usage for the Research Activities Tax Credit in its periodic [Contingent Liabilities Report](#). Based on Table 8 of the report, the following figures provide credit redemption history and projections for the program on a fiscal year basis. The blue bars of **Figure 2** indicate the actual credit redemptions, while the red bars are the IDR projections of future redemptions. The figures do not include the Supplemental Research Activities Tax Credit.

Figure 1 — Research Activities Tax Credit History

*Projected

Fiscal Year	Tax Credit Redemptions	Fiscal Year	Tax Credit Redemptions
FY 2011	\$ 44,865,730	FY 2021	\$ 47,662,144
FY 2012	36,962,435	FY 2022	36,319,663
FY 2013	40,463,714	FY 2023	43,952,526
FY 2014	48,399,022	FY 2024	63,115,956
FY 2015	60,644,335	FY 2025	74,333,197
FY 2016	59,734,465	FY 2026*	50,946,930
FY 2017	75,636,933	FY 2027*	53,318,353
FY 2018	72,370,984	FY 2028*	31,340,020
FY 2019	84,285,676	FY 2029*	10,901,219
FY 2020	79,773,792	FY 2030*	5,047,845

Figure 2 — Research Activities Tax Credit Redemptions

*Projected (in Millions)

