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## ***Iowa Paid \$33 Million in Research Checks in 2012*** ***Rockwell Collins, Deere & Dupont Again Lead RAC Beneficiaries***

IOWA CITY, Iowa (Feb. 15, 2013) — The largest recipients of a state research credit shared \$28.5 million in subsidy checks as some or all paid no income tax in 2012, according to a new report from the Iowa Department of Revenue.

The [report released Friday](#) shows that overall, 178 corporations claimed a total of \$46.1 million from the Research Activities Credit (RAC) in 2012, including both the regular RAC and a separate supplemental credit, but nine corporations claimed over 90 percent of those funds.

Of those credits, \$32.5 million was paid to 130 claimants as “refunds,” the amount paid as checks because the claimants had more credits than income tax liability. Most of those “refunds” went to some or all of the nine largest beneficiaries of the credit.

“This report is the latest evidence of the need for reform of this poorly named ‘tax credit,’” said Charles Bruner, executive director of the Child & Family Policy Center. “The credit is used less to reduce taxes than to provide straight subsidies to big companies through the tax code, outside the budget process.

“It was never designed or promoted for huge subsidies for highly profitable businesses. These state reports are showing not only that the program is very expensive, but that most of the money — over 70 percent in 2012 — is paid out as checks to companies that already have wiped away all their income tax liability.”

A special tax-credit review panel appointed in 2009 by then-Governor Chet Culver urged lawmakers to eliminate the refundability of the credit for large companies, capping its cost and setting a five-year sunset that would require fresh approval to continue the credit. None of these proposals have been followed.

This latest state report shows that eliminating refundability in FY2012 would have cut the cost of corporate RAC credits from \$46.1 million to \$13.5 million.

“The difference would be enough to fund about 1 percent of allowable growth for K-12 schools in Iowa,” noted David Osterberg, executive director of the nonpartisan Iowa Policy Project.

The state, which spent \$21.2 million on the credit in FY2010, [is projected](#) to spend \$72.2 million on it in FY2017 if there are no changes.<sup>1</sup>

Bruner noted that the RAC began as a way to support start-up companies to do research in Iowa, but that very large, profitable multinational companies dominate its use.

The biggest claimants in 2012, the same top three recipients as in the previous two years, were:

- Rockwell Collins Inc. and subsidiaries, \$13.8 million;
- Deere and Co., \$11.9 million; and
- Dupont, \$8.5 million.

As a group, the largest claimants — those with over \$500,000 in claims — received credits of \$42.1 million — \$28.5 million of that in checks considered “refunds,” not as a return for an overpayment of taxes, but for tax credit value beyond their tax liability. The report further disclosed that 91 percent of the credits were claimed by only 5 percent of the corporations (nine).

This is the fourth annual report from the Department of Revenue as a result of a 2009 law requiring disclosure of the overall amount of individual and corporate RAC claims and refunds, and individual company claim amounts in excess of \$500,000 for a year. While the law requires reporting of claims for large beneficiaries, it does not require that the amount of “refunds” be individually disclosed.

“The disclosure we have now is an improvement, but remains limited,” Bruner said, noting a stronger law would specify how much of individual corporate claims are paid out as checks, as opposed to credits that remove tax liability.

“Even with revenues coming in strong, the Research Activities Credit is expensive. What disclosure we have, and the limits on that disclosure, show that the RAC is a poster child for the need for accountability on the state’s corporate subsidies,” Bruner said.

Osterberg agreed.

“There simply can be no question that if we are going to spend over \$40 million on these subsidies, they should be transparent in the budget process. These resources could be going toward education or water-quality enforcement,” Osterberg said.

“Why do we subsidize something that we know will happen anyway? Rockwell Collins, Deere and DuPont all need to do research to thrive; they will do what research is necessary for their business — they don’t need their taxes cut to persuade them of the need. But even if we think taxes should be reduced to encourage research, why do we send these companies a check on top of eliminating their taxes?”

“Perhaps the biggest question is this: Why isn’t the Legislature asking more about it, and demanding answers on behalf of their constituents?”

Besides the top three claimants, John Deere Construction had \$3.4 million in claims, Monsanto \$1.7 million, with four other companies — Vermeer, CNH America, Kemin Industries and Skyworks — above \$500,000.

In addition, the report showed 1,144 individuals claimed a total of \$4.5 million from the RAC, with \$1.7 million of that paid as refunds to 307 claimants. Individual claimants are not identified in the report.

The Iowa Fiscal Partnership is a joint public policy analysis initiative of two nonpartisan, nonprofit Iowa-based organizations, the Iowa Policy Project in Iowa City and the Child & Family Policy Center in Des Moines. Reports are at [www.iowafiscal.org](http://www.iowafiscal.org).

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For more information about Iowa fiscal issues, visit the Iowa Fiscal Partnership at [www.iowafiscal.org](http://www.iowafiscal.org).

Other Resources on the Research Activities Credit from the Iowa Fiscal Partnership:

[Iowa’s Gift to Corporations Keeps on Giving](#), IFP backgrounder, Feb. 21, 2012

[Secret Checks No More: Report Identifies Big Takers](#), IFP backgrounder, Feb. 11, 2011

[Tax Credit Shows Benefits on Non-Taxpaying Companies](#), IFP Statement, Feb. 11, 2011

[Spotlight on Secret Checks](#), Feb. 4, 2008, 2-page PDF

[Perks for the Most Profitable](#), April 2008, 6-page PDF

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<sup>1</sup> Combined cost of Research Activities Credit (RAC) and Supplemental RAC. Iowa Department of Revenue, Tax Credits Contingent Liabilities Report, December 12, 2012: <http://www.iowa.gov/tax/taxlaw/1212RECRReport.pdf>