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Big companies erase taxes — take millions in state checks *Research Credit annual report shows big companies keep gaining*

IOWA CITY, Iowa (Feb. 15, 2016) — A lucrative tax subsidy is providing as much in checks to companies that don't pay income tax as the state could use to pay for 1 percent in state aid to schools.

A new annual report from the Department of Revenue outlines the use of the Research Activities Credit (RAC), which in 2015 provided \$42.1 million — about the cost of an additional percentage point in school aid — to companies that paid no state income tax. Most of that went to very large companies.

The state report, released Monday, shows that in 2015:

- Claims by 248 companies totaled \$50.1 million for the RAC and the related supplemental RAC for which some claimants are eligible.
- Of those, 186 (75 percent) are companies that not only owed no state corporate income tax after applying the credit, but received state checks in return.
- Eighty-four percent of the tax credits were paid as checks to the companies.
- Very large claimants — companies with over \$500,000 in RAC claims — had at least 85 percent of those checks (\$35.8 million) while paying no income tax.
- Rockwell Collins, Dupont, Deere & Co., John Deere Construction and Monsanto were the largest corporate claimants, as they have been for the past six years. Together, those five companies have claimed nearly \$218 million from the RAC program from 2010-15. (See table.)

“This spending outside the budget process is distorting the choices now on the table as state lawmakers consider what is available for schools, clean water, human services and public safety,” said Mike Owen, executive director of the nonpartisan Iowa Policy Project.

“Is it a better use of taxpayers' money to send millions in checks to profitable companies to do research they would do anyway, or to make sure schools can hire enough teachers next fall? That is the question that should be raised by this automatic spending on business tax breaks. To ignore it is a fiscal scandal.”

Overall, the credit program cost \$57.1 million in calendar year 2015, with \$50.1 million of that in claims by corporations and the rest by individuals. The credit is refundable, which means that if a company has more tax credits available than it owes in taxes, the state makes a payment for the difference. These so-called “refunds” — not of taxes owed but of credits in excess of taxes owed — accounted for 84 percent of all of the corporate research credits in 2015, according to the new report from the Department of Revenue.

The report is available on the Department of Revenue website at [https://tax.iowa.gov/sites/files/idr/RAC Annual Report 2015.pdf](https://tax.iowa.gov/sites/files/idr/RAC%20Annual%20Report%202015.pdf)

The Iowa Fiscal Partnership (IFP), a joint initiative of the Iowa Policy Project and another nonpartisan organization, the Child & Family Policy Center in Des Moines, has reported on the RAC for many years.

Owen noted that Iowans have access to more information about this credit than they did years ago because of the annual report, which was ordered by the Legislature in 2009.

All of the state annual reports on the RAC are available on the Iowa Department of Revenue website at <https://tax.iowa.gov/report/Reports?combine=Research%20Activities>.

Those reports show that the number of corporate claimants has grown from 160 in 2010, the first full year covered by the annual reports, to 248 in both 2014 and 2015. The number of claimants receiving the credit as checks, rather than to only erase tax liability, rose from 133 in 2010 to 181 in 2014 and 186 in 2015.

Most of Corporate RAC is Paid in Checks — Not to Reduce Taxes

Corporate Claims — Amount						
	2015	2014	2013	2012	2011	2010
RAC	\$ 44,236,451	\$ 44,850,110	\$ 38,017,792	\$ 35,640,422	\$ 31,245,684	\$ 29,318,232
Supplemental RAC	\$ 5,875,992	\$ 6,133,393	\$ 15,300,561	\$ 10,414,774	\$ 16,327,031	\$ 15,907,882
Total	\$ 50,112,443	\$ 50,983,503	\$ 53,318,353	\$ 46,055,196	\$ 47,572,715	\$ 45,226,114

RAC Paid as Checks						
	2015	2014	2013	2012	2011	2010
RAC	\$ 36,757,248	\$ 29,539,705	\$ 27,082,724	\$ 27,541,506	\$ 28,607,498	\$ 27,308,295
Supplemental RAC	\$ 5,321,363	\$ 5,255,931	\$ 9,178,957	\$ 4,973,634	\$ 16,275,682	\$ 15,724,359
Total	\$ 42,078,611	\$ 34,795,636	\$ 36,261,681	\$ 32,515,140	\$ 44,883,180	\$ 43,032,654

Percent of RAC Paid as Checks						
	2015	2014	2013	2012	2011	2010
	84.0%	68.2%	68.0%	70.6%	94.3%	95.2%

Source: Research Activities Tax Credit Annual Report, Iowa Department of Revenue, Feb. 15, 2016

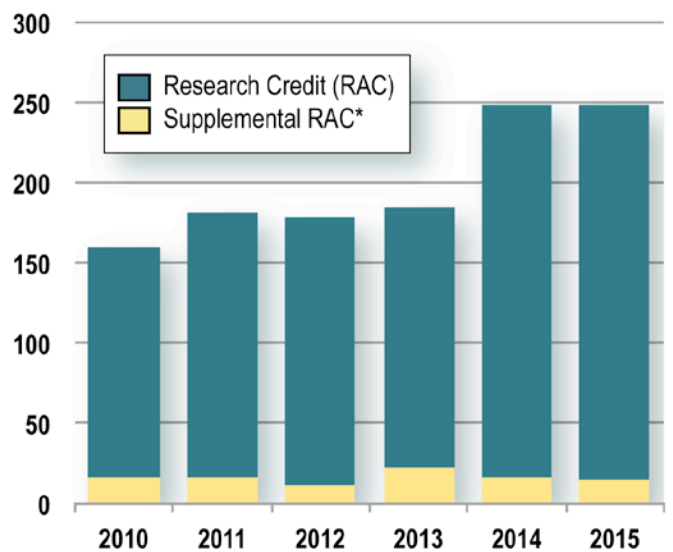
An IFP report last month showed that Department of Revenue forecasts indicate business tax breaks will grow by 13 percent from this budget year to the next, even though the debate over school aid focuses on numbers between 2 percent and 4 percent.

According to the Iowa Association of School Boards, each percentage point increase in Supplemental State Aid (SSA) costs about \$41 million to \$43 million.

“There is at least a legitimate question, one that lawmakers are refusing to consider, of why large, profitable corporations do not have to defend these millions of dollars in tax breaks and subsidies, when teachers and children’s advocates are going hat in hand to the Capitol for enough to keep up with basic costs,” Owen said.

A special tax credit review panel [recommended in 2010](#) that the state curtail some spending on business tax credits. Among its proposals were to scale back “refunds” of the research credit, and to impose a five-year sunset on all tax credits to assure that the Legislature would have to vote to continue them.

Number of Corporate Claims Up Sharply Since 2010



*Supplemental RAC recipients also have received the RAC.

As List Grows, Top RAC Recipients Constant Over Last Six Years

	2015	2014	2013	2012	2011	2010	6-Year Total
Rockwell-Collins	\$ 12,062,912	\$ 11,701,722	\$ 11,771,749	\$ 13,848,248	\$ 14,313,898	\$ 14,213,205	\$ 77,911,734
Dupont	\$ 7,544,772	\$ 6,856,050	\$ 8,625,513	\$ 8,539,712	\$ 7,762,928	\$ 5,949,495	\$ 45,278,470
Deere & Co.	\$ 7,489,778	\$ 9,409,743	\$ 13,795,781	\$ 11,901,351	\$ 11,762,241	\$ 12,797,619	\$ 67,156,513
John Deere Const.	\$ 2,657,234	\$ 3,234,277	\$ 4,799,201	\$ 3,360,694	\$ 2,162,782	\$ 2,198,830	\$ 18,413,018
Monsanto	\$ 1,756,325	\$ 1,493,410	\$ 973,534	\$ 1,743,342	\$ 1,305,188	\$ 1,848,480	\$ 9,120,279
HNI Corp.	\$ 1,508,476	\$ 1,257,660	\$ 692,024				\$ 3,458,160
Vermeer	\$ 1,184,328	\$ 1,172,872	\$ 1,103,152	\$ 775,020	\$ 622,650	\$ 862,725	\$ 5,720,747
Carleton Life Support	\$ 1,014,971	\$ 807,543	\$ 616,462				\$ 2,438,976
CJ Bio America	\$ 974,738						\$ 974,738
Skyworks	\$ 957,779	\$ 659,791	\$ 538,998	\$ 571,457	\$ 667,515	\$ 896,127	\$ 4,291,667
Kemin Industries Inc.	\$ 876,115		\$ 630,381	\$ 615,147			\$ 2,121,643
Interstate Power	\$ 868,529	\$ 605,701	\$ 526,947			\$ 576,438	\$ 2,577,615
AMVC Production LLC	\$ 863,013						\$ 863,013
Dieomatic	\$ 692,411	\$ 612,053					\$ 1,304,464
Intermec Technologies Corp.	\$ 682,061						\$ 682,061
Winnebago Corp	\$ 610,922						\$ 610,922
Whirlpool	\$ 549,706	\$ 511,482					\$ 1,061,188
Polaris Industries Inc	\$ 528,895						\$ 528,895
CNH America LLC	\$ 524,717	\$ 1,287,836	\$ 2,082,634	\$ 703,842			\$ 4,599,029
Boehringer Ingelheim Vetmedica	\$ 516,584	\$ 506,133					\$ 1,022,717
Bridgestone Americas		\$ 1,489,544					\$ 1,489,544
Syngenta Seeds Subcon		\$ 540,466					\$ 540,466
Pfizer						\$ 942,184	\$ 942,184
Total 500K Claimants	\$ 43,864,266	\$ 42,146,283	\$ 46,156,376	\$ 42,058,813	\$ 38,597,202	\$ 40,285,103	\$253,108,043
Total Taxes Erased by RAC — All Corps	\$ 8,033,832	\$ 16,187,867	\$ 17,056,672	\$ 13,540,056	\$ 2,689,535	\$ 2,193,460	\$ 59,701,422
Min. Total Checks to Top Corporations	\$ 35,830,434	\$ 25,958,416	\$ 29,099,704	\$ 28,518,757	\$ 35,907,667	\$ 38,091,643	\$193,406,621

Note: Minimum Total Checks means the minimum amount that the corporations with over \$500,000 in claims received as a subsidy after all corporate income tax owed was eliminated. Claims include both the regular RAC and Supplemental RAC.

Source: Iowa Department of Revenue

For more information about the Research Activities Credit and other Iowa tax credit issues, see the Iowa Fiscal Partnership website at www.iowafiscal.org.

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The Iowa Fiscal Partnership is a joint public policy analysis initiative of two nonpartisan, nonprofit Iowa-based organizations, the Iowa Policy Project and the Child & Family Policy Center. Reports are at www.iowafiscal.org.