

Big firms take the most with lucrative research credit

As lawmakers consider corporate taxes, spotlight on Research Activities Credit

Iowa's most lucrative business tax credit program is the Research Activities Credit (RAC). Through the RAC, some big companies receive big dollars from the state of Iowa, some as credits — effectively, discounts — on their taxes. But some (up to 244 in 2017¹) either owe no income tax or reduce it to zero with the RAC, and have tax credits left over. They then can receive state checks as a “refund” — \$43.7 million last year.

The RAC was established in 1985. To help start-up firms, which would have little or no profit in their early years and thus owe little or no tax, it was made “refundable” — a “refund” check for unused tax credits assures them the full benefit of the credit. But start-ups gain little compared to very large firms (Tables 2-3).

Table 1 shows little of this tax credit is used to reduce taxes for its recipients. Rather, the RAC and a supplemental RAC mostly are used to provide subsidies that can be worth millions of dollars to corporations that pay no Iowa state income tax.

What is the RAC?

The Iowa Research Activities Credit (RAC) is equal to 6.5 percent of a company's Iowa-apportioned share of qualified research expenditures, based on federal rules, above a base level of previous research spending.

A recipient may also receive a supplemental RAC. Firms with annual gross revenues under \$20 million are eligible for a larger percentage supplemental credit than other firms.

The amount of a credit in excess of taxes owed is refunded.

Table 1. Most of the corporate RAC and supplemental RAC is paid in checks — not to reduce taxes

Corporate Claims — Number and Amount								
	2017	2016	2015	2014	2013	2012	2011	2010
Number	373	305	248	248	185	178	181	160
RAC	\$ 52,400,947	\$ 43,209,559	\$ 44,236,451	\$ 44,850,110	\$ 38,017,792	\$ 35,640,422	\$ 31,245,684	\$ 29,318,232
Sup. RAC	\$ 2,395,464	\$ 5,883,134	\$ 5,875,992	\$ 6,133,393	\$ 15,300,561	\$ 10,414,774	\$ 16,327,031	\$ 15,907,882
Total	\$ 54,796,411	\$ 49,092,693	\$ 50,112,443	\$ 50,983,503	\$ 53,318,353	\$ 46,055,196	\$ 47,572,715	\$ 45,226,114
Corporate RAC Paid as Checks								
Number	244	207	186	181	140	130	131	133
RAC	\$ 41,381,642	\$ 35,274,585	\$ 36,757,248	\$ 29,539,705	\$ 27,082,724	\$ 27,541,506	\$ 28,607,498	\$ 27,308,295
Sup. RAC	\$ 2,348,948	\$ 5,117,399	\$ 5,321,363	\$ 5,255,931	\$ 9,178,957	\$ 4,973,634	\$ 16,275,682	\$ 15,724,359
Total	\$ 43,730,590	\$ 40,391,984	\$ 42,078,611	\$ 34,795,636	\$ 36,261,681	\$ 32,515,140	\$ 44,883,180	\$ 43,032,654
Percent of RAC Paid as Checks								
Checks	79.8%	82.3%	84.0%	68.2%	68.0%	70.6%	94.3%	95.2%

Source: Iowa Department of Revenue, Research Activities Tax Credit annual reports

The amount of the corporate claims under the RAC has ranged from about \$45.2 million to \$54.8 million over the eight years covered by official annual reports required since 2010.² The 2017 report showed 373 corporate claims, covering both the regular RAC and the supplemental credit. Another 3,334 individual claims totaling \$11.3 million brought the total cost of the RAC in tax year 2017 to \$66.1 million.

The number of RAC corporate claims has more than doubled since 2010, from 160 claims to 373 claims last year. (Table 1) Likewise, the share of claims paid as checks rose from 133 to 244 — an 83 percent increase.

Large claimants take \$8 to \$9 out of every \$10 from the corporate credit (Table 2). These are the companies that have over \$500,000 in corporate claims. Recalling that the credit represents 6.5 percent of the increase in Iowa research spending above an established base level (box, page 1) this effectively means a company with \$500,000 in claims has Iowa research expenses — above a historical base level of research spending by that company³ — of at least \$7.7 million. It is reasonable to ask whether any subsidy is necessary for a company already devoting such sizable resources to research.

Table 2. Claimants above \$500,000 receive largest share of corporate RAC benefit

LARGEST CLAIMS	Research Activities Credit for large claimants by amount of claims							
	2017	2016	2015	2014	2013	2012	2011	2010
Claims over \$500K*	21	17	20	16	12	9	7	9
Percent of total claimants	5.6%	5.6%	8.1%	6.5%	6.5%	5.1%	3.9%	5.6%
Claims over \$500K	\$ 49,455,666	\$ 44,281,312	\$ 43,864,266	\$ 42,146,283	\$ 46,156,376	\$ 42,058,813	\$ 38,597,202	\$ 40,285,103
Others' total claims	\$ 5,340,745	\$ 4,811,381	\$ 6,248,177	\$ 8,837,220	\$ 7,161,977	\$ 3,996,383	\$ 8,975,513	\$ 4,941,011
Total	\$ 54,796,411	\$ 49,092,693	\$ 50,112,443	\$ 50,983,503	\$ 53,318,353	\$ 46,055,196	\$ 47,572,715	\$ 45,226,114
Percent of total claims for large claimants	90.3%	90.2%	87.5%	82.7%	86.6%	91.3%	81.1%	89.1%

* Number of claims are consolidated for individual companies reported to have more than one claim above \$500,000 in one year.
Source: IFP analysis of Iowa Department of Revenue, Research Activities Tax Credit annual reports

Further examination of the annual reports shows that those large claimants not only receive most of the overall benefit of the program as noted in Table 2, but **they receive the lion's share of the checks as well.** For 2017, for example, the 21 firms with over \$500,000 in claims had 88 percent of the “refund” checks — as did the 17 large claimants the year before. Large claimants had 80 percent or more of the checks in every year covered by the official annual reports except one — in 2014, when they had 74.6 percent.⁴

Table 3. Top claimants familiar year to year

Top five claimants in 2017 include top four since 2010		
Largest Claimants	2017	8 Year Total
Rockwell-Collins	\$ 13,918,092	\$ 104,085,300
Deere & Co.	\$ 7,561,108	\$ 82,736,273
Green Plains Inc	\$ 5,346,500	
John Deere Const.	\$ 3,926,540	\$ 24,954,821
Dupont	\$ 2,601,440	\$ 52,978,960

Source: Dept of Revenue. For full list 2010-2017, see www.iowafiscal.org.

A Special Tax Credit Review Panel urged, in January 2010, a five-year sunset for all tax credits, which would force a regular legislative review and affirmative votes to renew credits. Its specific recommendations on the Research Activities Credit included eliminating refundability for companies above \$20 million gross receipts yearly. The panel commented: “It seems unreasonable for the State to be providing successful, larger corporations refund checks for amounts of the Research Activities Tax Credit over its tax due to the State.”⁵

¹ Annual reports for the Research Activities Credit compiled by the Iowa Department of Revenue list the number and amounts of claims filed and refunds of credits; the number of claims does not necessarily correspond to the number of companies, as some companies may file more than one claim.

² Annual reports filed under the 2009 law are on the Department of Revenue website, at [https://tax.iowa.gov/report/Reports?combine=Research Activities](https://tax.iowa.gov/report/Reports?combine=Research+Activities). Reports for calendar year 2010 and after offer full-year information. A report was required for a partial year in 2009. Our tables summarize the corporate claims in those full-year reports.

³ See the Department of Revenue annual report for the RAC for 2017, p 2, <https://tax.iowa.gov/sites/files/idr/RAC%20Annual%20Report%20R2017.pdf>

⁴ IFP analysis of Department of Revenue annual reports on the RAC for 2010 through 2017.

⁵ State of Iowa Tax Credit Review Report, Jan. 8, 2010, p. 8, <http://iowapolicyproject.org/2010docs/1001-TaxCreditReview.pdf>

The Iowa Fiscal Partnership is a joint public policy analysis initiative of two nonpartisan, Iowa-based organizations: the Iowa Policy Project in Iowa City and the Child and Family Policy Center in Des Moines. Reports are at www.iowafiscal.org. This short piece is part of a 2018 Tax Policy Kit created by IFP to help Iowans evaluate the merits of commentary from various sources as major changes in Iowa tax policy are promoted and contemplated in 2018. Find the kit at <http://www.iowafiscal.org/areas-of-research/ifps-2018-tax-policy-kit/>.