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## ***Once again, big companies take millions in state checks Most of Research Credit goes to companies that pay no Iowa income tax***

IOWA CITY, Iowa (Feb. 13, 2019) — Iowa’s lucrative research subsidy cost Iowa taxpayers \$70 million in 2018 — some as a credit against taxes owed, but most to companies that received \$41.8 million in checks from the state without paying any Iowa corporate income tax.

Iowa's most generous business tax-credit program cost \$55 million for corporate claims and \$15 million for claims filed by individuals, according to the Iowa Department of Revenue’s annual report on the Research Activities Credit, or RAC.

The report showed that three-fourths of the corporate claims were paid out as refunds, for tax credits that were not needed to erase taxes owed. In other words, companies had more tax credits than they needed to take their tax liability to zero, so they received checks for the remainder — breaking the \$40 million mark for the fourth straight year.

“It’s business as usual in Iowa — business breaks as usual, that is,” said Mike Owen, executive director of the nonpartisan Iowa Policy Project (IPP). “This program has been in need of serious reform for many years, and this report is only the latest example of how we spend tens of millions of dollars outside the budget process, without any evidence of a public benefit.”

For the eighth time in nine years, the top two beneficiaries were Rockwell Collins and Deere & Co., with nearly \$13.8 million and \$4.8 million in claims, respectively. Dupont had almost \$4.8 million in claims as well, with John Deere Construction at \$2.4 million.

The Department of Revenue report was released late Wednesday afternoon on the agency’s website. It is available here: [https://tax.iowa.gov/sites/files/idr/RAC Annual Report 2018.pdf](https://tax.iowa.gov/sites/files/idr/RAC%20Annual%20Report%202018.pdf).

The annual report has been required since 2009 and not only offers the overall numbers and total amounts of corporate and individual tax-credit claims in the RAC program, but also the number and amount of “refunds.” It further identifies RAC recipients with more than \$500,000 in claims — but does not separate out how much of those individual companies claims were paid as “refund” checks.

Analysis by the Iowa Fiscal Partnership of the latest report and those for previous years shows those large claimants — 24 companies — received over \$33 million in checks out of \$46.4 million in claims in 2018.

“It is important to note that these companies are doing what the law permits,” Owen said. “What we must recognize, however, is that this is a budget choice that is being made on autopilot.

“It seems ironic, for example, that this report came out the same day the Senate approved a meager 2.06 percent increase in per-pupil school spending. There was a bill, there was debate, and there was a vote. That doesn’t happen for the research credit. The spending is on the books and no vote is taken.”

He noted that the corporate “refund” checks of almost \$42 million would have provided enough to bring the 2.06 percent school funding increase to about 3 percent.

The report noted changes in eligibility for the credit were passed in a massive tax bill in 2018, but the early indications from the latest report show many of the big players in this program are largely the same, and the costs are similar as well. Corporate claims in 2018 were \$55 million in both 2017 and 2018, including both the RAC and a supplemental RAC that has more limitations.

The report shows that in 2018:

- Companies made 428 claims totaling \$55 million for the RAC and the related supplemental RAC.
- Three-fourths of the amount of those claims, \$41.8 million from 239 claims, were paid in whole or in part to companies that owed no state income tax after applying the credit, and received state checks for the remaining amount of credit.
- Very large claimants — companies with over \$500,000 in RAC claims — had at least 79 percent of those checks (\$33.1 million) while paying no income tax.
- The so-called “refunds” have accounted for about three-fourths — 73.9 percent — of all research credits through the last nine years, according to Department of Revenue reports.
- The number of individual claims spiked in 2018 to 5,305 for about \$15 million, from 3,334 for \$11.3 million in 2017. The department attributed that to an increase in the number of credits earned by pass-through entities.

Anne Discher, executive director of the nonpartisan Child and Family Policy Center, noted the combined \$70 million in corporate and individual RAC claims was the highest yet in the nine full-year reports by the Department of Revenue. The credit cost \$66.1 million in 2017.

“Advocates of schools, clean water, human services and public safety have to work for appropriations every year. But legislators continue to let this spending go on and on,” said Discher, whose organization and IPP together form the Iowa Fiscal Partnership.

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.

For more information about the Research Activities Credit and other Iowa tax credit issues, see the Iowa Fiscal Partnership website at [www.iowafiscal.org](http://www.iowafiscal.org). 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=ResearchActivities>

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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](http://www.iowafiscal.org).*