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EDITOR'S NOTE: The Iowa Fiscal Partnership today released the following statement regarding the report of the Department of Revenue about Research Activities Credit recipients:

IFP: More Information Needed on Research Subsidies

“The new disclosure report is a good first step and begins to illustrate the issues we — and the Department of Revenue — have noted with the Research Activities Credit (RAC).

“It shows a lot of money is involved; the vast majority is being paid out as checks to companies that pay no income tax; and a large share is going to few companies — and large companies, not startup entrepreneurial operations as the law intended.

“But it also illustrates what Iowans are not being told about the RAC. There are big holes in the information-gathering process. And it leaves open the critical question that must be asked of any subsidy: What does this credit encourage that would not happen anyway?

“We may learn far more from the report that is due a year from now, when we see a full year's worth of claims, but this first report shows some deficiencies in what is provided by the new law passed in 2009.

“These are our initial observations regarding the two-page report provided Monday by the Department of Revenue (DOR):

- (1) Of \$8.74 million in RAC claims, \$6.62 million, or 76 percent, went out as direct payments — checks from the state treasury — to companies that paid no income tax in 2009.
- (2) Notably, the report does not disclose recipients of the so-called ‘refunds,’ which are not ‘refunds’ of taxes owed, but secret checks to companies for the amount of their claim above their tax owed. This is a weakness in the current reporting requirement.
- (3) While the amounts were understated due to a shortened reporting period for 2009, \$8.7 million remains a large amount of money — and only five companies shared in the benefit of over 46 percent of that amount. (See box, page 2)
- (4) The disclosure requirements need to be strengthened, to include identities of recipients of ‘refund’ checks, and disclosure needs to be assured in time for the Legislature to respond.

“It is important to note that this first report covers only half a year — and understates what would typically happen in that period. The DOR pointed out in December that many companies were avoiding disclosure under the 2009 law by filing claims before the July 1 effective date of the disclosure law. Using DOR estimates, we may assume corporations hid up to \$25 million in claims and secret checks by filing before July 1.

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“In addition, this report misses any corporations that received an extension to delay their tax filing, and also may miss claims made on forms not yet entered in the agency’s tax credits database.

“As we have pointed out in the past, our research and reports from the state Department of Revenue have illustrated Iowa’s rapid growth in spending through the tax code. This has gone with little review and has shortchanged critical services at a time they are most needed. Iowa taxpayers deserve to know how much of scarce tax dollars are being spent this way, and to whom.

“Today’s report punctuates that concern.”

Big beneficiaries of the RAC

Today’s report from the Department of Revenue shows \$4,032,989 in claims by just five corporations — and indicates a significant share of those claims were paid as checks to the corporations, not just erasing tax liability:

<u>Company</u>	<u>RAC</u>	<u>Total Sales</u>	<u>After Tax Net Income</u>	<u>Tax Year</u>
Vermeer Manufacturing	\$1,352,069	-- privately held --		
Hon Industries, Inc.	\$ 892,396	\$ 2.48 billion	\$ 45 million	2008
Interstate Power	\$ 576,438			
CNH America LLC	\$ 708,338	\$12.7 billion	\$ 373 million	2009
Syngenta Seeds, Inc	\$ 503,748	\$11.6 billion	\$1.54 billion	2008

Regarding a reporting-date recommendation by the Department of Revenue, IFP commented:

“As a final note, the Department suggests a change in its reporting date for this annual report, from Feb. 15, to June 30, to better facilitate its information-gathering. This recommendation would delay any legislative response until the following January. To address the Department’s concern, we suggest an alternative that the annual report cover claims from October 1 through September 30 or on a state fiscal year calendar, reportable by the Department by January 1, to allow for review by the incoming Legislature.

“We would further suggest (1) that the filing of any claim above \$500,000 between September 30 and the filing of the report be noted in a separate list, to be posted on the Department’s website by February 1; and (2) disclosure of ‘refund’ checks for subsidies above the amount of tax owed, to be posted on the Department’s website simultaneously with authorization of the checks.”

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For more information about Iowa’s state fiscal situation, see the [Iowa Fiscal Partnership](http://www.iowafiscal.org) website www.iowafiscal.org. The Iowa Fiscal Partnership is a joint budget and tax policy initiative of two nonpartisan, Iowa-based organizations, the Iowa Policy Project in Iowa City and the Child & Family Policy Center in Des Moines.