

## 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 239 in 2018<sup>1</sup>) 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” — \$41.8 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” payment for unused tax credits would assure they get the full benefit of the credit. But start-up firms benefit little compared to very large companies (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 are used mostly to provide subsidies worth sometimes millions of dollars to corporations that pay no 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 at least half of current-year 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									
	2018	2017	2016	2015	2014	2013	2012	2011	2010
Number	428	373	305	248	248	185	178	181	160
RAC	\$ 51,614,414	\$ 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	\$ 3,407,928	\$ 2,395,464	\$ 5,883,134	\$ 5,875,992	\$ 6,133,393	\$ 15,300,561	\$ 10,414,774	\$ 16,327,031	\$ 15,907,882
<b>Total</b>	<b>\$ 55,022,342</b>	<b>\$ 54,796,411</b>	<b>\$ 49,092,693</b>	<b>\$ 50,112,443</b>	<b>\$ 50,983,503</b>	<b>\$ 53,318,353</b>	<b>\$ 46,055,196</b>	<b>\$ 47,572,715</b>	<b>\$ 45,226,114</b>
Corporate RAC Paid as Checks									
	2018	2017	2016	2015	2014	2013	2012	2011	2010
Number	239	244	207	186	181	140	130	131	133
RAC	\$ 38,762,029	\$ 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	\$ 2,989,781	\$ 2,348,948	\$ 5,117,399	\$ 5,321,363	\$ 5,255,931	\$ 9,178,957	\$ 4,973,634	\$ 16,275,682	\$ 15,724,359
<b>Total</b>	<b>\$ 41,751,810</b>	<b>\$ 43,730,590</b>	<b>\$ 40,391,984</b>	<b>\$ 42,078,611</b>	<b>\$ 34,795,636</b>	<b>\$ 36,261,681</b>	<b>\$ 32,515,140</b>	<b>\$ 44,883,180</b>	<b>\$ 43,032,654</b>
Percent of RAC Paid as Checks									
<b>Checks</b>	<b>75.9%</b>	<b>79.8%</b>	<b>82.3%</b>	<b>84.0%</b>	<b>68.2%</b>	<b>68.0%</b>	<b>70.6%</b>	<b>94.3%</b>	<b>95.2%</b>

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 \$55 million over the nine years covered by official annual reports required since 2010.<sup>2</sup> The 2018 report showed 428 corporate claims, covering both the regular RAC and the supplemental credit. Another 5,305 individual claims totaling \$14.98 million brought the total cost of the RAC in tax year 2018 to \$70 million. The number

of RAC corporate claims has grown quickly since 2010, from 160 claims to 428 claims last year. (Table 1) Likewise, the share of claims paid as checks rose from 133 in 2010 to 244 in 2017 and 239 last year.

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 of at least \$15 million. It is reasonable to ask whether the 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								
	2018	2017	2016	2015	2014	2013	2012	2011	2010
# over \$500K	25	21	17	20	16	12	9	7	9
% of all claims	5.8%	5.6%	5.6%	8.1%	6.5%	6.5%	5.1%	3.9%	5.6%
Claims \$500K+	\$ 46,410,407	\$ 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' claims	\$ 8,611,935	\$ 5,340,745	\$ 4,811,381	\$ 6,248,177	\$ 8,837,220	\$ 7,161,977	\$ 3,996,383	\$ 8,975,513	\$ 4,941,011
All corp. claims	\$ 55,022,342	\$ 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 for large claimants	<b>84.3%</b>	<b>90.3%</b>	<b>90.2%</b>	<b>87.5%</b>	<b>82.7%</b>	<b>86.6%</b>	<b>91.3%</b>	<b>81.1%</b>	<b>89.1%</b>

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 2018, for example, the 24 firms with over \$500,000 in claims (one had two claims) had 79 percent of the "refund" checks. 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.

In fact, claims by five companies — \$302.1 million from 2010 through 2018 — account for two-thirds of all corporate claims in those nine years, and 58 percent of all corporate and individual claims combined. Those companies are Rockwell Collins, Deere & Co., Dupont, John Deere Construction and Monsanto (Table 3).

**Table 3. Top five claimants: \$302 million in nine years**

	2018	Nine-Year Total
Rockwell-Collins	\$ 13,765,858	\$ 117,851,158
Deere & Co.	\$ 4,765,080	\$ 87,501,353
Dupont	\$ 4,760,286	\$ 57,739,246
John Deere Const.	\$ 2,439,812	\$ 27,394,633
Monsanto	\$ 771,184	\$ 11,580,337

Source: Dept of Revenue. For full list 2010-2018, see [www.iowafiscal.org](http://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. "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."<sup>3</sup>

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> State of Iowa Tax Credit Review Report, Jan. 8, 2010, p. 8, <http://iowapolicyproject.org/2010docs/1001-TaxCreditReview.pdf>