

IOWA'S LEADERSHIP IN RESEARCH AND DEVELOPMENT



REFUNDABLE RESEARCH ACTIVITIES CREDIT ENSURES RESEARCH IS MORE PROFITABLE IN IOWA

Pentagon-classified navigation systems are designed and tested. Genetically superior, drought resistant triple-stacked hybrids exponentially improve yields. Scientists discover a simple flower, the marigold, which unlocks astonishing potential as a change agent to improve the world's health.

All achieved or discovered in Iowa, the common denominator among all of these extraordinary activities is the intensive research and development efforts involved in bringing them to market. For businesses heavily dependent on research and development, one of the strategic advantages of conducting that world-changing research in Iowa is the state's Research Activities Credit — commonly referred to as the research and development tax credit.

Whether a company's specific strategy is planting a stake into emerging markets, expanding its market leadership position or paving technological inroads to gain market share, the success of those efforts is largely dependent on the company's preceding work in research and development. Iowa recognizes how significant these resulting innovations are to long-term business growth and stability. Even though the federal research credits have fluctuated with intermittent expiration dates and reinstatement periods, Iowa has remained consistent in its support of the Research Activities Credit.



"In the changing global economy, the state of Iowa's refundable Research Activities Credit remains a tremendous strategic asset to companies and industries with intensive research demands. Technology innovation fuels our future growth and is what will differentiate our company in tomorrow's highly competitive global marketplace. The refundability of the research and development tax credit is a significant stimulus for further economic development that encourages the retention and development of high quality jobs."

Tom Stanczyk, Vice President, Tax
Rockwell Collins

IOWA'S RESEARCH ACTIVITIES CREDIT IS REFUNDABLE

Iowa sets itself apart, being one of only a few states in the United States to offer a refundable research activities credit. Iowa companies earn refundable tax credits for research and development investments that may be paid directly in cash to the company once its tax liabilities have been met. This is a critical difference and a huge benefit in Iowa because each research or development decision depends on a delicate balance between the inherent financial risk and the return of profitability. The weight of that risk is mitigated with the refundable aspect of the state's Research Activities Credit.

Specifically, the qualified research expenditures include:

- Wages paid to an employee for performing or supporting a research activity conducted at an Iowa facility or for an employee in Iowa who directly supervises or directly supports research activities
- Supplies including tangible property other than land, improvements to land and depreciable property
- 65 percent of expenses related to contract research

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NEW PROCESSES FROM NEW PRODUCTS

The definition of research activities has expanded beyond traditional research and may include manufacturing process improvements and the time spent by engineers, management and other employees designing and testing new manufacturing processes.

“John Deere has a history of product innovation and is a technology leader in the state of Iowa. Iowa’s Research Activities Credit enables Deere to build on that legacy while fostering an environment in which our engineering center and manufacturing facilities can test these new technologies on our products and manufacturing processes prior to distributing around the globe.”

Michael C. Rubino, Director, State Tax
John Deere

An increasing percentage of Iowa’s overall economic growth is coming from research-intensive, value-added agricultural products or enhancements that impact lives everyday. The world’s leaders in agricultural seed technology, Corteva Agriscience; aerospace technology and global security leader, Rockwell Collins; and globally recognized advanced manufacturing company, John Deere, are all Iowa companies testifying to the value of Iowa’s Research Activities Credit and its significance in driving innovative research and the advanced manufacturing processes.

For more information on Iowa’s Research Activities Credit or to determine if your company’s activities and expenditures qualify, please contact your tax advisor. Visit iowaeconomicdevelopment.com for more information on other programs available through the Iowa Economic Development Authority.

CALCULATION EXAMPLE

A company has annual gross receipts of \$10 million and qualified research expenses in Iowa of one million dollars. This company could expect a credit of \$32,500 using the following example:

Total qualified research expenses (all attributable to Iowa) in that tax year:	\$1,000,000
Company’s fixed-base percentage (1):	3%
Company’s average annual gross receipts (2):	\$10,000,000
\$10,000,000 x 3% =	\$300,000
\$1,000,000 - \$300,000 =	\$700,000
\$1,000,000 x 50% =	\$500,000

Take the smaller of \$700,000 or \$500,000

\$500,000 x 6.5% = \$32,500 credit in that tax year

Supplemental Research Activities Credits are available through the High Quality Jobs program as follows — in addition to the 6.5 percent available through statute:

- **+10% if gross revenue < \$20,000,000**
- **+3% if gross revenue > \$20,000,000**

(1) The fixed base percentage for the first five tax years in which a company incurs qualified research expenses is three percent. After this point in time, the fixed base percentage calculation varies based upon how many years the company has been incurring qualified research expenditures. The calculation is based on the company’s aggregate qualified research expenditures and its aggregate gross receipts for a specific period of time. The maximum fixed base percentage is 16 percent. To learn how to calculate your company’s fixed base percentage, please consult your tax advisor.

(2) Average annual gross receipts for the four tax years preceding the tax year in which the credit is being determined.

For companies that have increasing sales amounts or stagnant research expenses, Iowa also offers an alternative simplified Research Activities Credit calculation that mirrors the alternative calculation offered by the federal government. The percentages used for Iowa’s alternative calculation are 4.55 percent and 1.95 percent. For more information on the alternative calculation, please consult your tax advisor.

For more information, contact the Iowa Economic Development Authority (IEDA)

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