



**FOR IMMEDIATE RELEASE: FEB. 16, 2023**

Contact: Mike Owen, (319) 331-1287, mowen@commongoodiowa.org

## **Iowa research giveaway: Record breaks for Deere companies**

Research subsidies for non-taxpaying companies dropped overall in 2022

DES MOINES, Iowa – Beyond new Iowa corporate income tax cuts that will cut tens of millions of dollars from state revenue in growing amounts each year, in 2022 the state gave away over \$40 million in research subsidies to companies.

A new state report shows the biggest beneficiary of the Research Activities Credit (RAC) was Deere & Co., which posted the largest amount of claims – \$14.5 million – by any single company for one year since annual RAC reports began in 2010.

The previous high was \$14.3 million in 2011 by Rockwell-Collins (now Raytheon). Rockwell was the top recipient from 2010-22 at \$140.8 million. Deere was next at \$129.5 million.

“Once again we see that companies that are highly profitable and don’t need state taxpayers’ help are the biggest recipients of this aid,” said Mike Owen, deputy director of Common Good Iowa (CGI).

“Over the last 13 years, Iowans have subsidized businesses with three-quarters of a billion dollars – \$761.5 million – with over half a billion going to companies that pay no income tax, and over half a billion going to very large companies. This was designed to be a program for small, entrepreneurial operations, but that has not been case for some time.”

The credit is “refundable,” so companies receive a check from the state for any amount of their credits not needed to pay income tax. In 2022, the annual report from the Department of Revenue shows the RAC program – Iowa’s most generous business tax credit – paid 40 percent of the \$40.4 million cost as so-called “refunds.”

### Biggest RAC beneficiaries

Deere & Co. posted the highest amount of Research Activities Credit claims in 2022, \$14.5 million, while two other Deere-branded firms gained another \$1.5 million.

John Deere Construction claimed just over \$1 million in credits, 11th overall, and John Deere Shared Services claimed \$507,430.

State law requires public identification by the Department of Revenue of companies that claim over \$500,000 in credits.

The second-highest claimant was Corn LP, a Goldfield-based ethanol company, which claimed \$3.2 million in credits. It is one of at least six ethanol operations among the 18 firms listed with over \$500,000 in claims.

Nine other companies topped \$1 million. Vermeer Manufacturing, at \$1.9 million, Poet Biorefining LLC, \$1.7 million, and MasTec Inc., \$1.5 million, also made the top five.

It is not clear how much of those claims were used to reduce taxes and how much paid out as checks. That reporting is not required.

Notably not in the list for 2021 or 2022 was Raytheon, formerly Rockwell-Collins, which has been the largest RAC recipient since the start of full-year annual reports in 2010.

“These checks are not the same as tax refunds. They are not returns of excess tax payments. These are subsidies, outside the budget process, often to very large and profitable companies that do not need state assistance to do research,” Owen said.

Owen noted that the amount (\$16.2 million) and the percentage of claims paid as so-called “refunds” (40 percent) were comparatively low for the 13-year period of annual reports. From 2015 through 2021 the amount of refunds was never below \$41 million, and the percentage of claims paid as refunds was 71 percent for the full 13 years.

“Despite the lower numbers, taxpayers are shelling out big money and receiving no explanation of how their funds are being spent,” he added. “We need better transparency to show how these taxpayer dollars are being used.”

Better transparency could help taxpayers understand why this lucrative credit is needed for particular industries. Of the 18 largest claimants, at least six are ethanol companies and two are hog operations. A past use of this credit by one ethanol company (Poet) has been challenged by the Department of Revenue and that matter is unresolved.

Owen noted that while lawmakers passed new corporate tax breaks in the massive income-tax-cut legislation of 2022, they did include a provision to reduce the RAC refunds. Those impacts begin to take effect in 2023.

CGI Executive Director Anne Discher noted the budget tradeoff with the RAC subsidy. “These payouts sacrifice the things Iowa families and workers need to get ahead – including schools, child care and workplace protections,” Discher said.

“We should be asking corporations to contribute their fair share, so we can advance opportunity for every Iowan,” she said.

This week’s report was required by a 2009 law to increase transparency of the program. A special tax-credit review panel in 2010 urged an end to RAC refunds for large companies, and a December 2021 report by the Department of Revenue found that the research activities tax credit has “a weak – if any – effect on research inputs and outputs.”

Although designed to help entrepreneurs cover costs of doing research in Iowa, the largest share of the benefit goes to big companies. In 2022, \$34.3 million was claimed by companies that had over \$500,000 in credits. That represents 85 percent of the total claims, just above the previous high of 83 percent recorded in 2010 and 2012. The report does not sort out what share of those large claims was paid as refunds.

For context, a company with over \$500,000 in claims under this program would have about \$7.7 million or more in qualified research expenses subject to the 6.5 percent credit.

The official Department of Revenue report is available at this link:

<https://tax.iowa.gov/sites/default/files/2023-02/RACAnnualReport2022.pdf>