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EDITOR'S NOTE: This release CORRECTS a Feb. 22 CGI news release to account for a change in Department of Revenue tracking and reporting of the Research Activities Credit.

Iowa research giveaway: More perks for the profitable

Research Activities Credit subsidies pass \$800 million mark in 14 years

DES MOINES, Iowa – As state lawmakers have inched toward reform of Iowa's lucrative research tax credit for big companies, the state reported processing claims for \$84.6 million for the program's subsidies in 2023.

Much of that amount – \$35.3 million, or 42% – was paid directly to firms that owed no state income tax, a longtime issue with the Research Activities Credit (RAC).

Due to a change in tracking methods by the Department of Revenue (DOR), \$39 million of the claims reported in 2023 were included on its previous annual reports.

"Again we see Iowa is generous to big businesses that don't need taxpayer help, but routinely receive it," said Mike Owen, deputy director of Common Good Iowa.

The DOR reported Deere & Co. with the largest amount of credits, \$15.2 million, with Rockwell-Collins next at \$14.2 million.

"Deere, Rockwell and others among the nearly 2,600 recipients of these tax credits contribute to Iowa's economy," Owen said. "But unlike schools, health-care providers, law enforcement and environmental stewards, they get state money automatically, often to do research they would have to do anyway to be the profitable companies they are.

Deere, Rockwell big beneficiaries

Deere & Co. posted the highest amount of Research Activities Credit (RAC) claims in 2023, \$15.2 million, while John Deere Construction gained another \$4.2 million.

The second-highest recipient in 2023 was Rockwell Collins and its subsidiaries, at \$14.2 million. It is part of RTX Corp., which showed its first claims in 2023, at \$5.5 million.

A 2009 state law requires an annual report from the Department of Revenue (DOR) on the RAC, including identification of firms with over \$500,000 in credits – 20 companies for 2023.

A DOR change in tracking of credits and credit refunds makes it difficult or impossible to precisely compare past year-by-year totals overall and by company. That is because in the 2023 transition year, \$39 million in previously reported claims are part of the latest report.

Deere and Rockwell Collins are historically the largest claimants in 14 years of reports, with well over \$100 million each. That remains clear despite the reporting change. The precise numbers of their claims over time, however, now are not as clear due to the change.

Seventeen companies topped \$1 million in the 2023 report.

“Over the last 14 years, Iowans have subsidized businesses with over \$807 million – and over half a billion going to companies that pay no income tax. About three-fourths has gone to very large companies. This was designed for small, entrepreneurial operations, but that has not been its focus for some time.”

The RAC is a 6.5% tax credit for new, qualified research in Iowa. It started as a program for start-up businesses in 1985, but large businesses have been the biggest beneficiaries for many years.

Twenty companies had over \$500,000 in claims, representing at least 39% of the \$84.6 million in claims. To illustrate that these are large companies, consider that a typical company with over \$500,000 in RAC claims would have about \$7.7 million or more in qualified research expenses subject to the 6.5 percent credit.

The credit is “refundable,” so companies are paid by the state for any amount of their credits not needed to pay income tax. DOR does not identify companies receiving the so-called “refunds.”

“These are not what most would think of as ‘refunds.’ They are not returns of excess tax payments. Rather, they are refunds of tax credits earned but not needed to offset taxes owed. They are subsidies made outside the budget process to companies that do research in Iowa,” Owen said. “Taxpayers never receive an explanation showing the public purpose of these subsidies.”

Owen noted, however, that next year’s state report might look different. That’s because new corporate income-tax breaks passed in 2022 included a reform to the RAC that will phase in a reduction in the refundable amount. The 10% reductions begin with claims filed for 2023, continuing until refundability is reduced to 50% in 2027.

When passed, the RAC reform was expected to save \$13 million this fiscal year and about \$45 million by FY 2028, according to the Legislative Services Agency fiscal note on the bill. The Department of Revenue projected in December that the FY 2024 cost of the RAC and a supplemental RAC would be \$88.2 million, falling to about \$52.8 million in FY 2025.

CGI Executive Director Anne Discher noted the budget tradeoff with the RAC subsidy.

“Iowa companies do better if people in their communities do better. It’s a far better investment of state dollars to support schools, child care and health care than to boost profits for big companies that can afford to do research on their own,” Discher said.

“We look forward to the reforms starting, and encourage legislators to find a way to make even more changes that bring this program back to its original purpose. Big corporations should be the first we expect to contribute their fair share, so we can advance opportunity for every Iowan,” she said.

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

<https://tax.iowa.gov/sites/default/files/2024-02/RACAnnualReport2023.pdf>

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