

More Transparency — Eventually Corporations Take End-Around on Law to Disclose RAC Benefits

While transparency is good, and will result from a new law passed last year, the initial report on Research Activities Credits (RAC) will show only limited information about specific corporations benefiting from the RAC. It will take a year or more before the new transparency provisions have a chance to work. Previous Iowa Department of Revenue reports have demonstrated that its benefits are concentrated in a handful of companies that receive millions of dollars in subsidies without paying income tax. One company received \$16.8 million in 2007, the Governor's tax credit review disclosed. But those reports did not identify recipients.

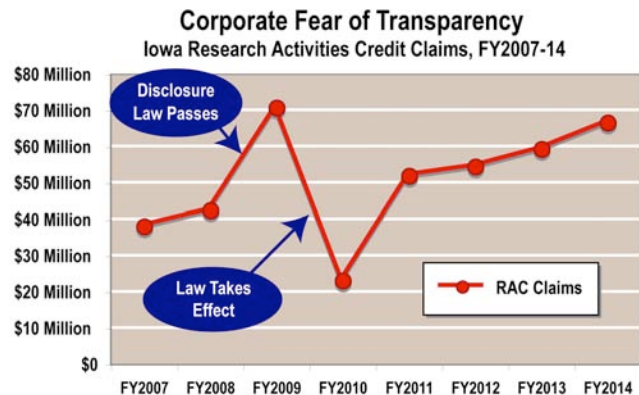
This is due to change. Lawmakers last year ordered annual public disclosure of RAC recipients with claims exceeding \$500,000. The first annual report from the Department of Revenue is due February 15.

The new rules, however, did not take effect until July 1, 2009, though the law was passed in April. That gave companies two months to file claims before the information gathering would begin — a window to avoid disclosure. Some jumped through that loophole, with an estimated \$25 million. Other corporations may get extensions to delay filing until 2010, so they also will not be part of the initial reporting.

The Department of Revenue reported on this in its December Contingent Liabilities report for the Revenue Estimating Conference. After estimating RAC claims for FY2009 at \$45.5 million and \$46.1 million in August and October reports, that number spiked to \$70.9 million in the December report.

The DOR report itself attributed the spike in the estimate to the new transparency law:

The majority of the increase in FY 2009 claims is a result of corporations filing claims early, before the July 1, 2010, effective date for a new disclosure requirement for Research Activities Tax Credit claims exceeding \$500,000. As a result the estimate for FY 2010 was lowered to account for those claims moving forward a fiscal year. (emphasis added)



Research Activities Credit Claims FY2007-14							
FY2007	History		FY2010	FY2011	Forecast		
	FY2008	FY2009			FY2012	FY2013	FY2014
\$38,192,930	\$42,597,828	\$70,856,654	\$23,268,082	\$52,045,063	\$54,570,365	\$59,442,871	\$66,728,662

Iowa Department of Revenue, Contingent Liabilities Report, December 2009

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