

Big Money, Big Companies — But Whose Benefit?

Official Report Exposes Continuing Issues with Iowa 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 as well (140 in 2013) either owe no income tax or reduce it to zero with the RAC, and have tax credits left over. In those cases they can receive state checks as a “refund” — \$36.3 million in state spending last year.

As the Iowa Fiscal Partnership has noted, Iowa's RAC is in practice a far different benefit from the one envisioned when it originally passed, in 1985. Designed to support start-up companies to do research, this increasingly costly program primarily benefits very large companies, with little scrutiny. Since 2009 more information has been available about the RAC, because a new law requires a state report by each February 15 on both individual and corporate claims against income tax.¹

What is the RAC?

The Iowa Research Activities Credit is equal to 6.5 percent of a company's Iowa-apportioned share of qualified research expenditures, based on federal rules. 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 firms with gross revenues above \$20 million. The amount of a credit in excess of taxes owed is refunded.

Little of this tax credit goes to reduce taxes. Rather, the credit is used mostly to provide subsidies, sometimes millions of dollars, to corporations that pay little or no income tax.

Table 1. Most of Corporate RAC is Paid in Checks — Not to Reduce Taxes

	Corporate Claims — Number				Corporate Claims — Amount			
	2013	2012	2011	2010	2013	2012	2011	2010
RAC	185	178	181	160	\$ 38,017,792	\$ 35,640,422	\$ 31,245,684	\$ 29,318,232
Supplemental RAC	22	12*	16*	17*	\$ 15,300,561	\$ 10,414,774	\$ 16,327,031	\$ 15,907,882
Total					\$ 53,318,353	\$ 46,055,196	\$ 47,572,715	\$ 45,226,114
	RAC Paid as Checks				RAC Paid as Checks			
	2013	2012	2011	2010	2013	2012	2011	2010
RAC	140	130	131	133	\$ 27,082,724	\$ 27,541,506	\$ 28,607,498	\$ 27,308,295
Supplemental RAC	19	11*	15*	17*	\$ 9,178,957	\$ 4,973,634	\$ 16,275,682	\$ 15,724,359
Total					\$ 36,261,681	\$ 32,515,140	\$ 44,883,180	\$ 43,032,654
ALL RECIPIENTS	Percent of RAC Paid as Checks				Percent of RAC Paid as Checks			
	68.0%	70.6%	94.3%	95.2%				

* Note: Supplemental RAC recipients are also recipients of regular RAC, so claim numbers are not added.

Table 2. Claimants Over \$500,000 Receive Largest Share of Benefit

BIGGEST CREDITS	By amount of claims				By amount paid as checks			
	2013	2012	2011	2010	2013*	2012*	2011*	2010*
Claimants over \$500K	12	9	7	9	12	9	7	9
Percent of total	6.5%	5.1%	3.9%	5.6%	6.5%	5.1%	3.9%	5.6%
Claims over \$500K	\$ 46,156,376	\$ 42,058,813	\$ 38,597,202	\$ 40,285,103	\$ 29,099,704	\$ 28,518,757	\$ 35,907,667	\$ 38,091,643
Others' total claims	\$ 7,161,977	\$ 3,996,383	\$ 8,975,513	\$ 4,941,011	\$ 7,161,977	\$ 3,996,383	\$ 8,975,513	\$ 4,941,011
Total	\$ 53,318,353	\$ 46,055,196	\$ 47,572,715	\$ 45,226,114	\$ 36,261,681	\$ 32,515,140	\$ 44,883,180	\$ 43,032,654
Percent of total for large claimants	86.6%	91.3%	81.1%	89.1%	80.2%	87.7%	80.0%	88.5%

* Note: In the Claimants over \$500K line, the four columns on the far right in the table list the minimum amount of the subsidy paid as checks, not used to reduce tax, for companies that do not pay any state income tax. State disclosure law does not individually sort out the actual amount of claims for those firms that are paid as "refund" checks; this a conservative estimate.

The 2013 report showed 185 corporations claimed a total of \$53.3 million from the RAC — covering both the regular RAC and the supplemental credit. Of those credits, \$36.3 million was paid to 140 claimants as “refunds”; in those cases recipients paid no state income tax as they claimed more credits than tax liability.

Table 3. Top Claimants Gain Year After Year, 2010-13

Top RAC Recipients Constant Over Last Four Years

	2013	2012	2011	2010	4-Year Total
Rockwell-Collins	\$ 11,771,749	\$ 13,848,248	\$ 14,313,898	\$ 14,213,205	\$ 54,147,100
Deere & Co.	\$ 13,795,781	\$ 11,901,351	\$ 11,762,241	\$ 12,797,619	\$ 50,256,992
Dupont	\$ 8,625,513	\$ 8,539,712	\$ 7,762,928	\$ 5,949,495	\$ 30,877,648
John Deere Const.	\$ 4,799,201	\$ 3,360,694	\$ 2,162,782	\$ 2,198,830	\$ 12,521,507
Monsanto	\$ 973,534	\$ 1,743,342	\$ 1,305,188	\$ 1,848,480	\$ 5,870,544
Vermeer	\$ 1,103,152	\$ 775,020	\$ 622,650	\$ 862,725	\$ 3,363,547
CNH America LLC	\$ 2,082,634	\$ 703,842			\$ 2,786,476
Skyworks	\$ 538,998	\$ 571,457	\$ 667,515	\$ 896,127	\$ 2,674,097
Kemin Industries Inc.	\$ 630,381	\$ 615,147			\$ 1,245,528
Interstate Power	\$ 526,947			\$ 576,438	\$ 1,103,385
Pfizer				\$ 942,184	\$ 942,184
HNI Corp.	\$ 692,024				\$ 692,024
Carleton Life Support	\$ 616,462				\$ 616,462
Total 500K Claimants	\$ 46,156,376	\$ 42,058,813	\$ 38,597,202	\$ 40,285,103	\$ 167,097,494
Total Taxes Erased by RAC — All Corps	\$ 17,056,672	\$ 13,540,056	\$ 2,689,535	\$ 2,193,460	\$ 35,479,723
Min. Total Checks to Top Corporations	\$ 29,099,704	\$ 28,518,757	\$ 35,907,667	\$ 38,091,643	\$ 131,617,771

Note: Minimum Total Checks means the minimum amount that the corporations with over \$500,000 in claims received as a subsidy after all corporate income tax owed was eliminated. Claims include both the regular RAC and Supplemental RAC.

Source: Iowa Department of Revenue

The law also requires reporting the identities of claimants of more than \$500,000. Table 3 provides information from the 2010, 2011, 2012 and 2013² annual reports disclosing big claimants and amounts claimed. A stronger law would disclose how much of each of those large claims was paid as a “refund,” illustrating which companies not paying Iowa income tax also received state assistance. It also would require corporations to report on changes in economic activities and investments in the state (the primary purpose for any business subsidy).

These large claimants are highly profitable companies. The biggest recipient of the Iowa credit in 2013, Deere & Co., had \$13.8 million in research costs offset — yet reported over \$3.5 billion in 2013 profits.³

Rockwell Collins reported \$632 million in profits in 2013, while Dupont posted \$4.8 billion.⁴ As Table 3 indicates, Rockwell Collins and Deere have both benefited from more than \$50 million in RAC claims over the last four years, and Dupont from more than \$30 million. These figures raise serious questions about the need for state help to cover what may be considered normal expenses. After all, what keeps these companies competitive in their fields is their research and development work. Where there might be a benefit to company stockholders, there is no demonstration to Iowa taxpayers about a return on their investment in these companies' operations.

The impact on resources available for public services is significant. The Department of Revenue projects the cost of this program to rise from about \$51.5 million for individual and corporate claims in 2012 to more than \$80 million by FY2018.⁵ The increase in corporate claims of \$7.3 million from 2012 to 2013 may be indicative of future drains in revenue, as Iowa continues to work its way back from the recession.

¹ All annual reports filed as a result of the 2009 law are on the Department of Revenue's Tax Credits Tracking and Analysis System page, at <http://www.iowa.gov/tax/taxlaw/creditstudy.html>. Reports for calendar year 2010 and after offer full-year information. Our tables summarize the corporate claims in those full-year reports.

² Iowa Department of Revenue, Tax Credits Tracking and Analysis System page: <http://www.iowa.gov/tax/taxlaw/creditstudy.html>

³ Deere & Co. Annual Report 2013, http://www.deere.com/en_US/docs/Corporate/investor_relations/pdf/financialdata/reports/2014/2013_annual_report.pdf

⁴ Profits posted for 2013 by companies: Rockwell Collins (fiscal year ending Sept. 30, 2013) http://investor.rockwellcollins.com/files/doc_financials/annual/RWC_2013AR_FINAL_r1.pdf, and Dupont (12 months ending Dec. 31, 2013) <http://investors.dupont.com/phoenix.zhtml?c=73320&p=irol-newsArticle&ID=1894082&highlight=>.

⁵ Iowa Department of Revenue, Tax Credits Contingent Liabilities Report, December 2013, <http://www.iowa.gov/tax/taxlaw/1213RECCReport.pdf>; Table 9. Note: These figures are fiscal-year costs and projections in reports provided by the Department for use by the Revenue Estimating Conference, as opposed to the calendar year reports provided by the Department as required by the Research Activities Credit disclosure law passed in 2009. They also include individual claims as well as corporate claims, while the tables only show corporate claims. (Corporate claims have represented more than 90 percent of the amount of all claims in each of the four years covered by the full-year RAC reports under the 2009 disclosure law. Individual claims represented 6.7 percent of the amount of the claimed credits in 2010, 7.8 percent in 2011, 8.9 percent in 2012 and 8.4 percent in 2013.).

Iowa Fiscal Partnership

The Iowa Fiscal Partnership (IFP) is a joint budget and tax policy initiative of two nonpartisan, Iowa-based organizations, the Iowa Policy Project in Iowa City and the Child & Family Policy Center in Des Moines. IFP is part of the State Fiscal Analysis Initiative, a network of nonpartisan organizations in 40 states and the District of Columbia that share a commitment to rigorous policy analysis, responsible budget and tax policies, and a particular focus on the needs of low- and moderate-income families. IFP research is supported by the Stoneman Family Foundation and by the Annie E. Casey Foundation. Policy conclusions are the responsibility of the Iowa Policy Project and the Child & Family Policy Center and not necessarily the view of either the Stoneman Family Foundation or the Annie E. Casey Foundation. Iowa Fiscal Partnership reports are available to the public at <http://www.iowafiscal.org>.