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Big companies erase taxes — take millions in state checks Once again, Research Activities Credit biggest gainers are big companies

IOWA CITY, Iowa (Feb. 15, 2018) — Iowa’s lucrative research subsidy cost Iowa taxpayers \$66.1 million in 2017, with very large companies once again the biggest beneficiaries and taking at least \$36 million in checks from the state without paying any state income tax.

“This reckless giveaway goes on year after year — just like Iowa’s shortchanging of public schools and human services, which is related. This is one place where the state could find revenue to better meet needs, but there appears to be no interest from the Governor or legislative leaders to reform the program,” said Mike Owen, executive director of the nonpartisan Iowa Policy Project (IPP).

“Which of these subsidies pay off for the state taxpayers? We don’t know — but we do know that the program is very costly, and getting more costly, and the vast majority goes to very large, very profitable corporations that would do research anyway, with or without a subsidy.”

The annual report by the state Department of Revenue, released Thursday, showed that in 2017 the state’s subsidies through the Research Activities Credit (RAC) and a supplemental credit totaled \$66.1 million, the highest in the eight years reporting has been required. Of that, \$46.2 million (70 percent) went as “refund” checks — not refunds of taxes paid, but of tax credits not needed to erase tax liability.

The vast majority of both claims and refunds went to corporations, and most of those to large corporations, with Rockwell Collins and Deere & Co again at the top of the list, with Rockwell making \$13.9 million in RAC claims and Deere at \$7.6 million, not including the \$3.9 million of John Deere Construction. Green Plains Inc., an ethanol producer, had the third-highest corporate claims at \$5.3 million.

The report shows that in 2017:

- Companies made 373 claims totaling \$54.8 million for the RAC and the related supplemental RAC for which some claimants are eligible.
- Three-fourths of those claims, 227 totaling \$41.8 million, were paid in whole or in part to companies that owed no state income tax after applying the credit, and received state checks for the remaining amount of credit.
- Very large claimants — companies with over \$500,000 in RAC claims — had at least 87 percent of those checks (\$36.5 million) while paying no income tax.

“Legislators have been making choices on what to cut in the current budget, and telling us how little is available for the next year. But they continue to let this spending go on and on,” said Anne Discher, executive director of the nonpartisan Child and Family Policy Center (CFPC).

“This is spending outside the budget process. Advocates of schools, clean water, human services and public safety have to work for appropriations every year.”

The report is available on the Department of Revenue website at [https://tax.iowa.gov/sites/files/idr/RAC Annual Report 2017.pdf](https://tax.iowa.gov/sites/files/idr/RAC%20Annual%20Report%202017.pdf)

The overall \$66.1 million cost of the program in calendar year 2017 included \$54.8 million in claims by corporations and the other \$11.3 million filed by individuals.

The credit is refundable, which means that if a company has more tax credits available than it owes in taxes, the state makes a payment for the difference. Such so-called “refunds” — not of taxes owed but of credits in excess of taxes owed — has accounted for 75 percent of all of research credits through the last eight years, according to Department of Revenue reports.

The Iowa Fiscal Partnership, a joint initiative of IPP and CFPC, has reported on the RAC for many years. More information is available about the program since 2009, when the Legislature required the annual reports each February. All of the state annual reports on the RAC are available on the Iowa Department of Revenue website at <https://tax.iowa.gov/report/Reports?combine=Research%20Activities>.

Corporate claims have more than doubled from 160 in 2010, to 373 in 2017. The number of claimants receiving the credit as checks, rather than to only erase tax liability, rose from 133 in 2010 to 227 in 2017.

A special tax credit review panel recommended in 2010 that the state curtail some spending on business tax credits. Among its proposals were to scale back “refunds” of the research credit, and to impose a five-year sunset on all tax credits to assure that the Legislature would have to vote to continue them.

For more information about the Research Activities Credit and other Iowa tax credit issues, see the Iowa Fiscal Partnership website at www.iowafiscal.org.

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The Iowa Fiscal Partnership is a joint public policy analysis initiative of two nonpartisan, nonprofit Iowa-based organizations, the Iowa Policy Project and the Child & Family Policy Center. Reports are at www.iowafiscal.org.