IOWA'S LEADERSHIP IN RESEARCH AND DEVELOPMENT

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Facts About Iowa's Research Activities Credit



REFUNDABLE RESEARCH ACTIVITIES CREDIT ENSURES RESEARCH IS MORE PROFITABLE IN IOWA

Pentagon-classified navigation systems are designed and tested. Genetically-superior, drought resistant triple-stacked corn hybrids exponentially improve corn and soybean yields. Scientists discover a simple flower, the marigold, unlocks astonishing potential as a change agent to improve the world's health. All achieved or discovered in Iowa, the common denominator among all of these extraordinary activities is the intensive research and development efforts involved in bringing them to market. For businesses heavily dependent on research and development, one of their strategic advantages of conducting that world-changing research in Iowa is the state's Research Activities Credit, commonly referred to as the Research and Development tax credit.

Whether a company's specific strategy is planting a stake into emerging markets, expanding its market leadership position, or paving technological inroads to gain market share, the success of those efforts is largely dependent on the company's preceding work in research and development. Iowa recognizes how significant these resulting innovations are to long-term business growth and stability. Even though the federal research credits have fluctuated with intermittent expiration dates and reinstatement periods, Iowa has remained consistent in its support for the Research Activities Credit over the years.

"Superior research is essential to providing new and better products to Pioneer customers. The Iowa Research Activities Credit has enabled Pioneer to significantly grow our research investment, which benefits our customers."

> - Curtis Rouse, Senior Finance Director Pioneer Hi-Bred International, Inc., a DuPont Subsidiary

Iowa's Research Activities Credit is Refundable

lowa sets itself apart, being one of only two states in the contiguous United States that offers a refundable research activities credit. For their research and development investments, lowa companies earn refundable tax credits that may be paid directly in cash to the company once its tax liabilities are met. This is a critical difference and a huge benefit in lowa because each research or development decision depends on a delicate balance between the inherent financial risk and the return of potential profitability. In lowa the weight of that risk is mitigated with the refundable aspect of its Research Activities Credit.

"In the changing global economy, the State of Iowa's refundable Research Activities Credit remains a tremendous strategic asset to companies and industries with intensive research demands. Technology innovation fuels our future growth and is what will differentiate our company in tomorrow's highly competitive global marketplace. The refundability of the research and development tax credit is a significant stimulus for further economic development that encourages the retention and development of high quality jobs."

> - Cheryl Woods, Manager, State Tax Rockwell Collins

lowa adopts the federal IRS Code when it comes to qualifying applicable research expenditures. The federal credit equals up to 20% of qualified research expenditures and in addition, Iowa's credit equals up to 6.5% of expenditures spent in the state. Iowa's Research Activities Credit may be doubled up to 13% of qualified expenditures when a business participates in the State's High Quality Job Creation Program or the Enterprise Zone Program. And in Iowa, if a company did not file for the Research Activities Credit on a prior year's tax return, amended returns can be filed for the credit within a three-year statute of limitation for the refund and any applicable interest.

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Specifically the qualified research expenditures include:

- Wages paid to an employee for performing or supporting a research activity conducted at a facility in lowa or for an employee in lowa who directly supervises or directly supports research activities
- Supplies including tangible property other than land, improvements to land, and depreciable property
- 65% of expenses related to contract research

New Processes from New Products

The definition of "research activities" has been expanded beyond traditional research and may include manufacturing process improvements and the time spent by engineers, management and other employees designing and testing new manufacturing processes.

"John Deere has a history of product innovation and is a technology leader in the State of Iowa. Iowa's Research Activities Credit enables Deere to build on that legacy while fostering an environment in which our engineering center and manufacturing facilities can test these new technologies on our products and manufacturing processes prior to distributing around the globe."

- Michael C. Rubino, Director, State Tax John Deere

An increasing percentage of Iowa's overall economic growth engine is coming from research-intensive, value-added agricultural products or enhancements that impact our everyday lives. One of the world's leaders in agricultural seed technology, Pioneer Hi-Bred International, a DuPont Subsidiary; aerospace technology and global security leader, Rockwell Collins; and globally-recognized advanced manufacturing company, John Deere, are all Iowa companies testifying to the value of Iowa's Research Activities Credit and its significance in driving innovative research and advanced manufacturing processes. For more information on lowa's Research Activities Credit or to determine if your company's activities and expenditures qualify, please contact your tax advisor. Visit www.iowalifechanging.com for more information on other programs available through the lowa Department of Economic Development.

CALCULATION EXAMPLE

Total qualified research expenses	
(all attributable to lowa) in that tax	rear: \$1,000,000
Company's Fixed-base Percentage (1):	
Company's Average Annual Gross F	eceipts (2): \$10,000,000
3% x \$10,000,000 =	\$300,000
\$1,000,000 - \$300,000 =	\$700,000
\$1,000,000 x 50% =	\$500,000
Take	the smaller of \$700,000 or \$500,000
\$500,000 x 6.5% =	\$32,500 credit in that tax year

If this company were participating in the State's Enterprise Zone Program or High Quality Job Creation Program during that tax year, the credit would be doubled up to \$65,000 per year.

(1) The fixed base percentage for the first five tax years in which a company incurs qualified research expenses is 3%. After this point in time, the fixed base percentage calculation varies based on how many years the company has been incurring qualified research expenditures. The calculation is based on the company's aggregate qualified research expenditures and its aggregate gross receipts for a specific period of time. The maximum fixed base percentage is 16%. For more information on how to calculate your company's fixed base percentage, please consult your tax advisor.

(2) Average annual gross receipts for the four tax years preceding the tax year in which the credit is being determined.

For companies that have increasing sales amounts or stagnant research expenses, lowa also offers an alternative incremental Research Activities Credit calculation that mirrors the alternative calculation offered by the federal government. The percentages used for lowa's alternative calculation are 1.65%, 2.2%, and 2.75%. For more information on the alternative calculation, please consult your tax advisor.

For more information on Research Activities Credit, contact the Iowa Department of Economic Development (IDED) 1.800.245.IOWA +1.515.242.4896 www.iowalifechanging.com