

Iowa Department of Revenue  
**Revenue Estimating Conference**  
**Tax Credits Contingent Liability Brief**  
December 8, 2006

This report is the first Tax Credits Contingent Liability Brief created by the Tax Research and Program Analysis Section of the Iowa Department of Revenue (IDR) for the benefit of the Revenue Estimating Conference (REC). This report is part of a project to create the Tax Credits Tracking and Analysis System, which was funded during the 2005 legislative session. The goal of the system is to provide a repository for information concerning the awarding, usage and effectiveness of tax credits.

The system eventually will create three types of reports:

1. Status reports will provide information on the award and usage of tax credits.
2. Evaluation reports will measure the effectiveness of tax credits at meeting their stated purpose.
3. Contingent liabilities reports will provide information on the impact tax credits have on General Fund revenues, historically, at present, and into future years.

Overall, this report presents five different types of data:

1. Tax Credit Awards in State Fiscal Years 2001 through 2007.
2. Tax Credit Claims in Tax Years 2000 through 2005.
3. Withholding Tax Credit Claims by Month Since January 2005.
4. Forecast of Potential Contingent Liability Due to Tax Credits through 2011.
5. New Tax Credits Data from Data Entry Project.

All of the data presented points to an increase in the impact of tax credits on General Fund revenues. The number of tax credits is increasing as the Legislature creates additional tax credit programs. The amount of credits claimed for individual tax credit programs is often increasing as more taxpayers learn about the credits. Overall, the data points to tax credits as an increasingly important factor that must be better understood in order to be accurately factored into the revenue estimation process.

### ***Tax Credit Awards***

In general, Iowa has two types of tax credits: automatic and awarded. Automatic credits are not capped and may be claimed by any eligible taxpayer. Awarded credits require application and a specific award in order for a taxpayer to claim the credit and may be capped or uncapped. More information about Iowa's tax credit programs may be found in the Appendix.

The amount of tax credits awarded has substantially increased between FY 2001 and FY 2006, the last year for which complete data are available. The increase is due to increasing utilization of existing programs but also due to new tax credit programs being added. In the past two years alone, over ten new tax credit programs have been created. Table 1 summarizes the growth in awarded tax credits.

## ***Tax Credit Claims***

Data on tax credit claims is also available. However, this data is limited because credits are aggregated on individual and corporate tax forms. This prevents reporting on all credits individually. Table 2 reports the tax credit claims data that is currently available. Beginning in Tax Year 2006, the IA148 Tax Credits Schedule will ask taxpayers to document what tax credits are taken, which will allow individual reporting for each tax credit. Overall, tax credit claims increased substantially between 2000 and 2005, especially against the individual income tax.

## ***Tax Credits from Withholding***

There are four tax credits that can be claimed against the withholding tax. The largest is the New Jobs Credit. There is also a Supplemental Jobs Credit. These two credits allow employers to train new employees. The Housing Assistance Credit is available under the Enterprise Zone, though no business has yet chosen to receive this credit. The ACE credit allows employers to sponsor training slots at community colleges. There are also adjustments that allow for administrative changes. Finally, there is an unexplained difference between total credits claimed and the five credits, likely due to paper filers and continuing efforts to reach full taxpayer compliance.

Table 3 shows withholding tax credit claims since January 2005. This is the starting point of the E-File and Pay system, which allowed for taxpayers to file withholding tax returns on a secure Internet website. Table 3 shows a substantial increase in withholding tax credits. Figure 1 depicts this increase graphically. Total monthly credits claimed fluctuate greatly, so a smoothed trendline is presented (three-month moving average). Overall, the trend for withholding tax credit claims is generally increasing.

## ***Tax Credit Contingent Liability Projection***

Table 4 attempts to forecast potential contingent liability facing General Fund Revenues due to tax credits. The amount of contingent liability for each credit is estimated in one of several ways. First, there are credits for which the estimates are based on the actual amount of credits awarded so far. Second, there are credits for which actual historic claims data can be forecast into future years using compound annual growth rates. Third, there are credits for which there are fiscal notes from the legislative session in which the credit was created. Fourth, projections from awarding agencies can yield estimates, especially for credits with low utilization. Fifth, there are credits for which the only estimate possible is the amount at which funding for the credit is capped. Finally, there are a few credits for which no estimate of contingent liability is possible. The Appendix includes descriptions of each of these tax credit programs, including its citation in the Code of Iowa.

Overall, total contingent liability due to tax credits in Iowa is growing and is expected to continue to grow into the future, as shown in Table 4 and Figure 2. As with tax credit awards, this increase is due to increasing amounts for individual programs and an increase in the number of tax credit programs.

## ***Tax Credits Data from Data Entry Project***

This fall, IDR conducted a limited data entry project. The project entailed pulling paper returns for tax years 2002 through 2004 with tax credits claimed and keying selected schedules. The selected schedules focused on three tax credits: research activities credit, ethanol blended gasoline credit, and investment tax credit. The data from the project cannot be viewed as comprehensive for a variety of reasons, such as electronic filing, taxpayer noncompliance, etc. However, it does provide some limited insight.

For example, the data keyed, shown in Table 5, also shows the dollars claimed generally increasing between 2002 and 2004. Also, the investment tax credit points to another aspect of contingent liability. In many cases, credits are awarded and claimed all in one year. However, in other cases, credits in excess of tax liability are carried forward to future tax years. In the case of the investment tax credit, carryforward increased at a much faster rate than actual tax credit claims. Carryforward from this and other credits is a liability that needs to factor into revenue estimation.

### ***Additions to Contingent Liability Report for 2007***

This Tax Credits Contingent Liabilities Brief is just a first attempt to synthesize available data on the impact of tax credits on General Fund revenues. In future briefs, additional information will be available. Currently a database is being developed that will merge award data and claim data. Claim data will be available in much more detail because of the IA148. Data will be available on an individual credit level. Data on carryforward, expired credits, and credits claimed via pass-through entities, and potentially other data will be available for the 2007 Tax Credits Contingent Liabilities Brief, which will be prepared for the December 2007 REC.

Table 1. Tax Credit Awards by Fiscal Year

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Accelerated Career Education Credits <sup>1</sup>	\$684,059	\$1,147,310	\$2,999,259	\$3,900,872	\$5,814,485	\$6,000,000	?
Agricultural Assets Transfer Credit	n/a	n/a	n/a	n/a	n/a	n/a	?
Assistive Device Credit	\$0	\$2,500	\$0	\$0	\$0	\$0	\$0
Economic Development Region Revolving Fund Credit	n/a	n/a	n/a	n/a	n/a	\$0	\$0
Endow Iowa Credit	n/a	n/a	n/a	\$1,003,773	\$2,000,000	\$2,000,000	\$2,000,000
Enterprise Zone Program <sup>2</sup>	?	?	?	\$30,251,550	\$59,035,626	\$98,845,980	?
High Quality Job Creation Program	n/a	n/a	n/a	n/a	n/a	\$49,234,285	?
Historic Preservation Tax Incentive Program <sup>3</sup>	\$2,400,000	\$2,400,000	\$2,400,000	\$2,400,000	\$2,370,000	\$6,400,000	\$6,400,000
Iowa New Job Training Program Credits	\$38,567,500	\$32,955,750	\$25,470,000	\$26,651,500	\$58,379,000	\$34,860,000	?
New Capital Investment Program <sup>2</sup>	?	?	?	\$21,071,641	\$18,641,271	n/a	n/a
New Jobs and Income Program <sup>2</sup>	?	?	?	\$40,433,473	\$49,249,311	n/a	n/a
Renewable Energy Tax Credit	n/a	n/a	n/a	n/a	n/a	\$0	?
School Tuition Organization Credit	n/a	n/a	n/a	n/a	n/a	n/a	?
Soy-Based Transformer Fluid Credit	n/a	n/a	n/a	n/a	n/a	n/a	?
Targeted Jobs Credit from Withholding	n/a	n/a	n/a	n/a	n/a	n/a	?
Venture Capital Credit-Qualified Business or Seed Capital Fund	n/a	n/a	n/a	n/a	n/a	\$374,419	\$692,035
Venture Capital Credit-Venture Capital Fund	n/a	n/a	n/a	n/a	n/a	\$200,448	\$384,600
Wage Benefit Tax Credit	n/a	n/a	n/a	n/a	n/a	n/a	?
Wind Energy Production Tax Credit	n/a	n/a	n/a	n/a	n/a	\$0	?

Source: Awarding Agencies.

n/a = program not yet created, or discontinued.

?=amount not yet determined or unknown

<sup>1</sup> ACE Program Credits were capped at \$3 million per year for FY 2001 through FY 2003, \$4 million in FY 2004, and \$6 million per year thereafter.

<sup>2</sup> Data are not readily available previous to July 1, 2003 for DED programs.

<sup>3</sup> Funding was increased from \$2.4 million per year to \$6.4 million per year in FY 2006.

Table 2. Tax Credit Claims by Tax Year

	2000	2001	2002	2003	2004	2005
Total Individual Income Tax Credits	\$48,279,743	\$51,410,935	\$72,705,744	\$81,614,614	\$85,666,562	\$102,057,665
Child Care Credit	\$6,396,628	\$6,236,660	\$6,160,402	\$8,354,236	\$8,120,963	\$8,369,647
Earned Income Credit	\$6,142,575	\$6,504,698	\$8,304,908	\$8,534,392	\$8,902,784	\$9,935,114
Tuition and Textbook Credit	\$11,453,646	\$12,380,363	\$13,138,193	\$13,772,790	\$14,267,790	\$15,443,580
Other Nonrefundable Credits	\$23,228,165	\$24,668,908	\$42,394,881	\$46,389,148	\$49,952,062	\$62,107,863
Other Refundable Credits	\$1,058,729	\$1,620,306	\$2,707,360	\$4,564,048	\$4,422,963	\$6,201,461

	2000	2001	2002	2003	2004*	2005*
Total Corporate Income Tax Credits	35,014,493	29,836,009	31,797,518	37,403,725	31,309,225	1,148,798
Other Credits	7,918,620	2,924,123	1,934,416	3,006,159	3,383,674	600,565
Iowa New Jobs Credit	1,833,421	1,875,350	2,242,601	2,399,543	1,529,322	8,038
Research Activities Credit	25,262,452	25,036,536	27,620,501	31,998,023	26,396,229	540,195

	2000	2001	2002	2003	2004	2005	4Q 2005- 3Q 2006
Iowa New Jobs Training Program Credits <sup>4</sup>	NA	NA	NA	\$38,012,253	\$40,147,405	\$43,607,777	\$43,686,239

Source: IDR data.

\*=incomplete data for tax year

<sup>4</sup> Data for New Jobs Training Program Credits reported to IDR by Community Colleges. This data does not directly correspond to withholding tax credits claimed in Table 3.

Table 3. Withholding Tax Credits Claimed by Month

Month	Number	Total Credits	New Jobs Credit	Supplemental Jobs Credit	Housing Assistance Credit	ACE Credit	Adjustments	Unexplained Difference
Jan-2005	50	\$420,860	\$0	\$0	\$0	\$0	\$23,931	\$396,929
Feb-2005	395	\$1,676,044	\$10,826	\$0	\$0	\$0	\$840	\$1,664,378
Mar-2005	340	\$1,453,837	\$37,849	\$0	\$0	\$2,844	\$4,005	\$1,409,139
Apr-2005	375	\$4,682,619	\$1,922,877	\$257,906	\$0	\$465,367	\$61,883	\$1,974,586
May-2005	441	\$2,736,009	\$514,271	\$0	\$0	\$21,673	\$15,443	\$2,184,622
Jun-2005	386	\$2,730,492	\$843,954	\$0	\$0	\$47,870	\$7,669	\$1,830,999
Jul-2005	451	\$7,878,329	\$2,825,803	\$68,864	\$0	\$365,481	\$135,653	\$4,482,528
Aug-2005	408	\$2,638,881	\$606,614	\$1,633	\$0	\$9,193	\$21,673	\$1,999,768
Sep-2005	1,060	\$5,334,660	\$1,220,098	\$145,110	\$0	\$568,818	\$70,292	\$3,330,342
Oct-2005	639	\$5,572,902	\$2,997,306	\$81,539	\$0	\$926,879	\$151,176	\$1,416,002
Nov-2005	504	\$5,098,634	\$1,183,694	\$39,922	\$0	\$22,838	\$10,391	\$3,841,789
Dec-2005	487	\$2,497,354	\$477,240	\$4,805	\$0	\$37,912	\$43,664	\$1,933,733
Jan-2006	710	\$8,620,162	\$3,123,107	\$259,746	\$0	\$1,041,385	\$200,879	\$3,995,045
Feb-2006	532	\$4,323,083	\$1,467,869	\$197,365	\$0	\$154,792	\$72,462	\$2,430,595
Mar-2006	520	\$3,592,808	\$1,188,328	\$33,833	\$0	\$352,475	\$26,087	\$1,992,085
Apr-2006	605	\$7,882,356	\$3,831,042	\$346,291	\$0	\$1,014,860	\$154,535	\$2,535,628
May-2006	666	\$3,907,546	\$1,238,526	\$12,937	\$0	\$152,266	\$34,394	\$2,469,423
Jun-2006	537	\$2,799,635	\$674,046	\$4,296	\$0	\$80,211	\$27,385	\$2,013,697
Jul-2006	635	\$7,149,985	\$3,801,222	\$270,122	\$0	\$1,216,262	\$472,314	\$1,390,065
Aug-2006	687	\$4,715,915	\$1,865,492	\$55,821	\$0	\$75,107	\$463,514	\$2,255,981
Sep-2006	595	\$3,375,077	\$1,140,801	\$35,239	\$0	\$143,596	\$12,291	\$2,043,150
Oct-2006	805	\$18,732,013	\$11,186,815	\$802,392	\$0	\$1,014,394	\$983,707	\$4,744,705
Nov-2006	570	\$4,253,445	\$1,460,222	\$67,837	\$0	\$61,045	\$771,591	\$1,892,750

Source: IDR data.

Figure 1. Graph of Actual Withholding Tax Credit Claims With Smoothed Claims to Show Trend Line.

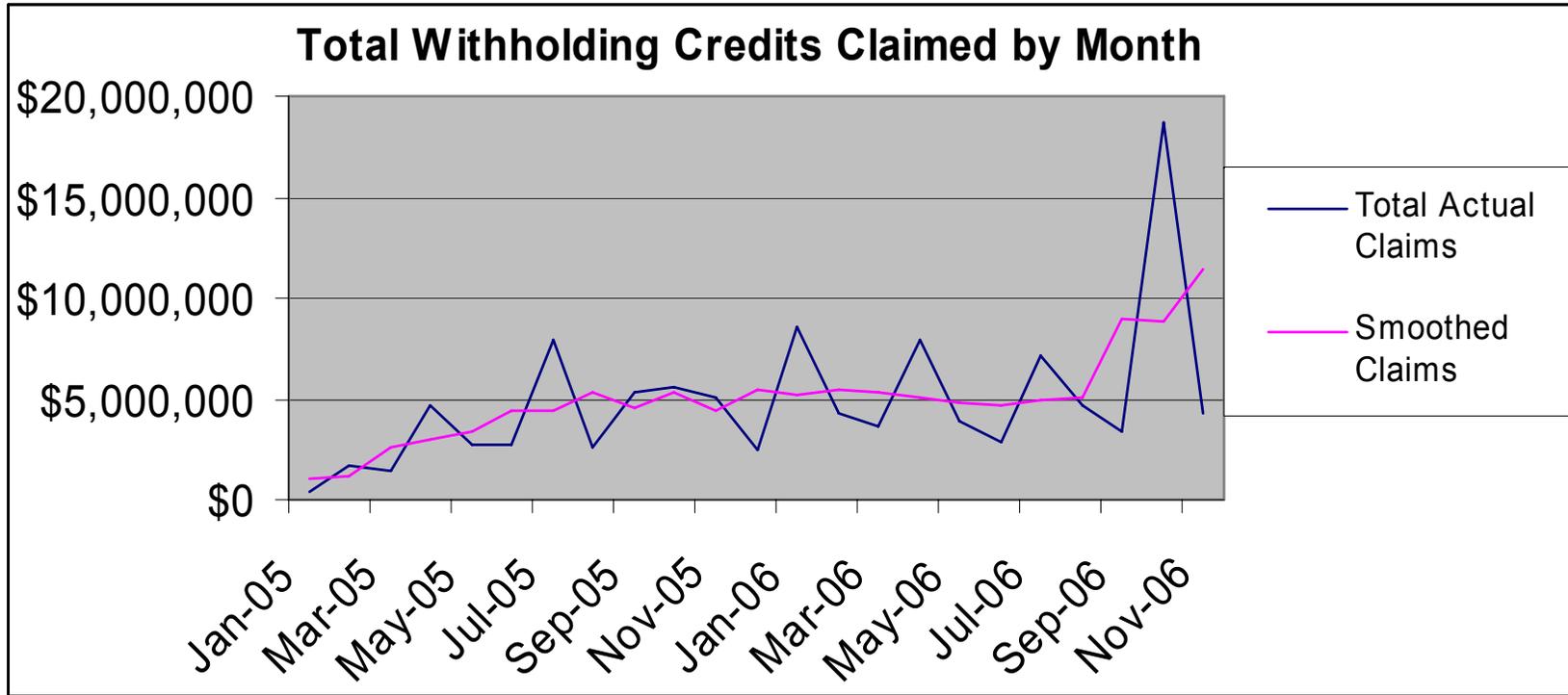


Table 4. Tax Credits Contingent Liability Projection

	History		Forecast				
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Capped Programs							
Accelerated Career Education Credits	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000
Cow-Calf Credit	\$1,770,342	\$1,770,342	\$1,770,342	\$1,770,342	\$1,770,342	\$1,770,342	\$1,770,342
Economic Development Region Revolving Fund Credit	\$0	\$0	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Endow Iowa Credit	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Endow Iowa Gambling Revenues							
Historic Preservation Tax Incentive Program	\$2,400,000	\$6,400,000	\$6,400,000	\$6,400,000	\$6,400,000	\$6,400,000	\$6,400,000
Renewable Energy Tax Credit <sup>5</sup>	\$0	\$0	\$2,900,000	\$7,400,000	\$10,000,000	\$10,100,000	\$10,200,000
School Tuition Organization Credit	\$0	\$0	\$2,500,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Venture Capital Credit-Fund of Funds							
Venture Capital Credit-Qualified Business or Seed Capital Fund	\$0	\$374,419	\$692,035	\$824,872	\$2,094,274	\$2,551,449	
Venture Capital Credit-Venture Capital Fund	\$0	\$200,448	\$384,600	\$185,625	\$742,740	\$92,723	
Wage Benefit Tax Credit	\$0	\$0	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000
Wind Energy Production Tax Credit <sup>5</sup>	\$0	\$0	\$5,300,000	\$9,200,000	\$11,800,000	\$11,800,000	\$11,800,000

<sup>5</sup> Based on full utilization of eligible wind-generation capacity, which is capped.

Table 4 Continued. Tax Credits Contingent Liability Projection

Uncapped Programs	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Agricultural Assets Transfer Credit <sup>6</sup>	\$0	\$0	\$70,000	\$180,000	\$250,000	\$330,000	\$400,000
Assistive Device Credit <sup>7</sup>	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Child and Dependent Care Credit <sup>8</sup>	\$8,120,963	\$8,369,647	\$8,831,986	\$9,319,864	\$9,834,692	\$10,377,960	\$10,951,237
Early Childhood Development Credit <sup>9</sup>	\$0	\$0	\$3,240,000	\$3,240,000	\$3,240,000	\$3,240,000	\$3,240,000
Earned Income Credit <sup>8</sup>	\$8,902,784	\$9,935,114	\$10,937,985	\$12,042,088	\$13,257,642	\$14,595,896	\$16,069,236
Ethanol Blended Gasoline Credit							
Net Impact of Renewable Fuel Credits (Biodiesel, E-85 & Ethanol) <sup>10</sup>	\$0	\$0	\$740,000	\$3,410,000	\$8,300,000	\$9,990,000	\$14,850,000
Enterprise Zone Program							
High Quality Job Creation Program							
Iowa New Job Training Program Credits <sup>11</sup>	\$43,607,777	\$54,470,649	\$78,503,099	\$86,353,409	\$94,988,750	\$104,487,625	\$114,936,388
Research Activities Credit (corp only) <sup>8</sup>	\$34,620,953	\$37,458,890	\$40,529,458	\$43,851,724	\$47,446,322	\$51,335,576	\$55,543,637
Soy-Based Cutting Tool Oil Credit <sup>12</sup>	\$0	\$0	\$60,000	\$60,000	\$0	\$0	\$0
Soy-Based Transformer Fluid Credit <sup>13</sup>	\$0	\$0	\$120,000	\$0	\$0	\$0	\$0
Targeted Jobs Credit from Withholding <sup>14</sup>	\$0	\$0	\$571,000	\$1,206,000	\$1,910,000	\$2,690,000	\$2,771,000
Tuition and Textbook Credit <sup>8</sup>	\$14,267,790	\$15,443,580	\$16,394,902	\$17,404,825	\$18,476,960	\$19,615,138	\$20,823,427
<b>TOTAL (Capped + Uncapped)</b>	<b>\$121,690,609</b>	<b>\$142,423,089</b>	<b>\$199,945,407</b>	<b>\$227,848,750</b>	<b>\$255,511,722</b>	<b>\$274,376,709</b>	<b>\$294,755,268</b>

<sup>6</sup> Fiscal Note on SF 2268, 2006 Legislative Session.

<sup>7</sup> There has only been one award since credit went into effect.

<sup>8</sup> Based on compound annual growth rate projection from historical data.

<sup>9</sup> Fiscal Note on HF 2794, 2006 Legislative Session.

<sup>10</sup> Fiscal Note on HF 2754, 2006 Legislative Session.

<sup>11</sup> Increase in FY 2007 based on change in actual collections in first five months between FY2006 and FY2007. Increase of 10 percent annually thereafter.

<sup>12</sup> Fiscal Note on SF 389, 2005 Legislative Session.

<sup>13</sup> Fiscal Note on SF 2402, 2006 Legislative Session.

<sup>14</sup> Fiscal Note on HF 2731, 2006 Legislative Session

Figure 2. Graph of Potential Contingent Liability Due to Tax Credits in Iowa

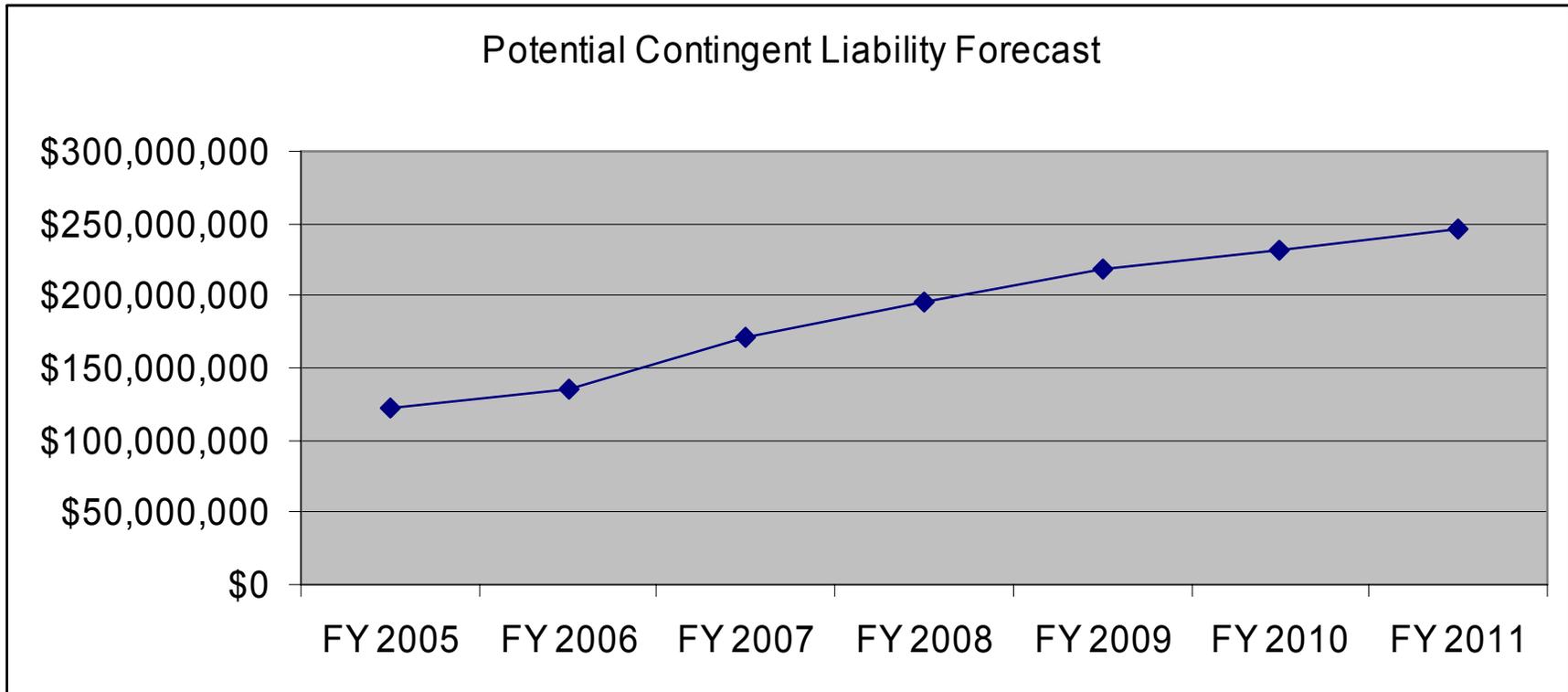


Table 5. Tax Credits Data from Data Entry Project

		2002		2003		2004	
		Number of Claims	Dollars Claimed	Number of Claims	Dollars Claimed	Number of Claims	Dollars Claimed
Research Activities Credit (Forms IA128 and IA128A)	Individual	357	\$3,962,177	545	\$5,816,923	478	\$5,620,828
	Corporate	65	\$2,314,774	54	\$1,320,327	16	\$234,712
	Total	422	\$6,276,951	599	\$7,137,250	494	\$5,855,540
Ethanol Blended Gasoline Credit (Form IA6478)	Total	335	\$729,082	440	\$888,063	385	\$1,119,719
Investment Tax Credit (Form IA3468)	Total	860	\$1,154,430	719	\$1,543,523	661	\$2,090,829
	Carryforward		\$2,228,792		\$5,117,876		\$8,141,642

Source: IDR data.

## ***Appendix: Description of Iowa's Tax Credit Programs***

**Accelerated Career Education (ACE) Program:** This withholding credit is administered by Iowa's Community Colleges and provides credits for employers that sponsor training slots at community colleges. Section 260G, Code of Iowa.

**Agricultural Assets Transfer Credit:** This credit is awarded by the Iowa Agricultural Development Authority to taxpayers that lease agricultural assets to qualified beginning farmers. Section 175.37, Code of Iowa.

**Assistive Device Credit:** This credit is awarded by the Iowa Department of Economic Development (DED) to taxpayers who make investments in assistive devices that allow for disability workplace accommodation. Section 422.11E, Code of Iowa.

**Biodiesel Blended Fuel Credit:** This credit is available to retail dealers who sell biodiesel blended fuel equal to over 50 percent of their total diesel sales. Section 422.11P, Code of Iowa.

**Child and Dependent Care Credit:** This credit is available to individual taxpayers who have eligible child and dependent care expenses. Section 422.12C, Code of Iowa.

**Cow-Calf Credit:** Eligible individual and corporation income taxpayers who operate cow-calf beef operations in Iowa are eligible for a cow-calf credit. Section 422.120, Code of Iowa.

**E-85 Gasoline Promotion Credit:** An income tax credit, on a rate per gallon sold basis, is available to retail dealers of gasoline who sell E-85 gasoline. Section 422.11O, Code of Iowa.

**Early Childhood Development Credit:** The Early Childhood Development tax credit is equal to 25% of the first \$1,000 of expenses paid for early childhood development expenses for each dependent from the ages of three to five. Section 422.12C(1A), Code of Iowa.

**Earned Income Credit:** This credit is available to individual taxpayers who qualify for the federal earned income credit and is 6.5% of the federal earned income credit. Section 422.12B, Code of Iowa.

**Economic Development Region Revolving Fund Credit:** This credit is awarded by DED and is equal to 20% of the contribution made to an economic development region revolving fund. Section 15E.232, Code of Iowa.

**Endow Iowa Tax Credit:** This credit is awarded by DED and is equal to 20% of a taxpayer's endowment gift (up to \$100,000 for a single taxpayer) to a qualified community foundation. Section 15E.305, Code of Iowa.

**Enterprise Zone Program:** This program, administered by DED, encourages investment in Iowa's economically distressed areas by providing local and state tax credits, refunds and exemptions to qualifying companies that expand or locate in designated Enterprise Zones. Section 15E.191, Code of Iowa.

**Ethanol Blended Gasoline Credit:** Starting in 2002, a tax credit is available to service stations at which more than 60 percent of the total gasoline sold is ethanol blended gasoline. The credit is equal to two and a half cents for each gallon sold in excess of 60 percent. Section 422.11C, Code of Iowa.

**Ethanol Promotion Credit:** This credit will replace the ethanol blended gasoline credit beginning in 2009. It will be based on the amount of pure ethanol gallons sold. Section 422.11N, Code of Iowa.

**High Quality Job Creation Program:** This program, administered by DED, provides tax benefits to eligible companies that create high-paying jobs and make capital investments. The program was created in 2005 and replaced the New Jobs and Income Program (NJIP) and the New Capital Investment Program (NCIP) beginning in FY 2006. Section 15.326, Code of Iowa.

**Historic Preservation Tax Incentive Program:** This program, administered by the Iowa Department of Cultural Affairs, provides a 25 percent tax credit for investments made in the rehabilitation of eligible historic properties. Section 404A, Code of Iowa.

**Iowa New Jobs Training Program:** This program, administered by Iowa's Community Colleges, assists businesses that are creating new positions with new employee training. Participating companies divert withholding taxes that would be remitted to the Department of Revenue to a community college to pay for training for company employees. Section 260E, Code of Iowa.

**New Capital Investment Program:** This program, administered by DED, was replaced by the High Quality Job Creation Program, beginning in FY 2006. Section 15.385, Code of Iowa.

**New Jobs and Income Program:** This program, administered by DED, was replaced by the High Quality Job Creation Program, beginning in FY 2006. Section 15.326, Code of Iowa.

**Renewable Energy Credit:** This credit is available for a producer or purchaser of energy from a renewable energy facility approved as eligible by the Iowa Utilities Board (IUB). Section 476C, Code of Iowa.

**Research Activities Credit:** This credit is 6.5 percent of Iowa's apportioned share of qualifying expenditures for increasing research activities. The Iowa research credit is based on the federal research activities credit, with the Iowa credit based on the ratio of Iowa research expenditures over total research expenditures. Section 422.10, Code of Iowa.

**School Tuition Organization Credit:** This credit, administered by IDR, is for 65% of the amount of a voluntary cash contribution made by a taxpayer to a school tuition organization. Section 422.11M, Code of Iowa.

**Soy-Based Cutting Tool Oil Credit:** A manufacturer is eligible to take a credit equal to the costs incurred for the purchase and replacement costs relating to the transition from using nonsoy-based cutting tool oil to using soy-based cutting tool oil. Section 422.111, Code of Iowa.

**Soy-Based Transformer Fluid Credit:** Electric utilities may claim this credit, administered by IDR, for the costs incurred by the utility for the purchase and replacement costs relating to the transition from using nonsoy-based transformer fluid to using soy-based transformer fluid. Section 476D, Code of Iowa.

**Targeted Jobs Credit from Withholding:** This pilot program, administered by DED and four pilot project cities, provides for a withholding credit equal to 3% of the gross wages paid by the employer to each employee under the withholding agreement. These funds are to be used by the pilot city for an urban renewal project related to the employer. 403.19A, Code of Iowa.

**Tuition and Textbook Credit:** This credit is available to individual taxpayers who have one or more dependents attending grades K-12 in an Iowa school. The credit percentage is 25% of the first \$1,000 paid for each dependent for tuition and textbooks. Section 422.12(2), Code of Iowa.

**Venture Capital Credit-Fund of Funds Contingent Credit:** This contingent tax credit, administered by the Iowa Capital Investment Board (ICIB), is allowed for investments made into the Iowa fund of funds. The tax credit is only allowed to the extent that the actual rate of return on these investments does not meet the rate of return guaranteed to investors. Section 15E.66, Code of Iowa.

**Venture Capital Credit-Qualified Business or Seed Capital Fund:** This credit, administered by ICIB, is 20 percent of the equity investment made into a qualifying business or community-based seed capital fund. Section 15E.43, Code of Iowa.

**Venture Capital Credit-Venture Capital Fund:** This credit, administered by ICIB, is 6 percent of the equity investment made in a venture capital fund. Section 15E.51, Code of Iowa.

**Wage-Benefit Tax Credit:** This credit, administered by IDR, is based on creating new jobs with good wages and benefits. The credit is either 5 percent or 10 percent of wages (depending on total wages and benefits relative to county average wage) for up to five years, as long as the job is retained. Section 15H, Code of Iowa.

**Wind Energy Production Credit:** This credit is for electrical production facilities that produce electricity from wind and is approved as eligible by the local board of supervisors and the IUB. Section 476B, Code of Iowa.