Iowa Research and Development Tax Credit Program – CPA Verification Form

The Iowa Research and Development Tax Credit Program is established in Iowa Code chapter 15, subchapter II, part 35 and 261 Iowa Administrative Code Chapter 82 Iowa Rulemaking Document.

This form is intended to meet the CPA verification requirement under Iowa Code section 15.523(3) and Iowa Administrative Code rule 261—82.3(1)(c).

Section 1: CPA Information

Name: ______________________ CPA License No. & State: ______________________
Firm: ______________________ Date of Review: ______________________

Please provide a brief summary of your qualifications demonstrating experience with verification of credit claims under IRC §41 or comparable state provisions.

Section 1: Eligibility Verification

1. Information Relied Upon

I verified that the qualified research and development and eligible expenditures are supported by the qualified business's underlying books and records.
Describe the information provided by the qualified business to verify qualified research and development was performed and the accuracy of the calculation of related eligible expenditures:

Example: Organization chart, Form W-2 wage information for employees, employee project timekeeping system, detailed time records for each employee allocating time between qualified and nonqualified activities for each project, account detail from the general ledger for accounts with qualified research expenditures, contracts for the qualified business to perform research projects for third parties, contracts for third parties to perform research for the qualified business, project descriptions for R&D projects, contemporaneous documentation of R&D projects.

2. Federal Credit Claimed
I verified that the qualified business claimed a federal research credit under section 41 of the Internal Revenue Code for its eligible expenditures for the same tax year for which the business has applied for a tax credit under the program.
Describe the procedures performed to verify the federal research credit claim:

Example: Verified that the IRS-accepted return for the tax year ended MM/DD/YYYY contains a Form 6765 which reflects a research credit under section 41 of the Internal Revenue Code. The supporting schedules provided for review confirm eligible expenditures were derived from the same dataset.

3. Methodology for Identifying and Calculating Qualified Research Expenditures
I verified that the qualified business's methodology for identifying eligible expenditures accurately identifies qualified research and development projects and activities and accurately calculates qualified research expenses under section 41 of the Internal Revenue Code that occurred in Iowa.
Describe the qualified business's methodology for determining qualified research and calculating eligible expenditures:

Example: [Client Contact Names] reviewed the project tracking system to identify projects for which employees tracked time for 20XX. [Client Contact Names] reviewed the information to determine which projects involved qualified research activities. Questionnaires were distributed to the selected subject matter experts to collect detail of how each project meets the four-part test. The completed questionnaires were reviewed to determine if the projects were qualified projects.

The qualified business utilizes Jira as its project management and time-tracking system, which captures detailed information on employee activities by project, task, and time spent. Qualified employee wages were calculated by mapping each employee's time logged in Jira to qualified projects. The percentage of time each employee spent on qualified Jira tasks and projects was applied to their total annual Iowa Box 16 wages to determine qualified wage costs. Tasks or tickets associated with non-qualifying activities—such as maintenance, repairs, or routine production support—were excluded from the qualified time percentages.

Contractor time was not tracked via Jira. Therefore, taxpayer reviewed the chart of accounts and trial balance information for the tax year ended MM/DD/YYYY. It was determined there were general ledger accounts from various departments that contained the cost of outside contractors who worked on R&D projects. Each department manager was then asked to complete a time record for each year to allocate their best estimate of the percentage of time each contractor worked on each business component (to the extent they worked on more than one business component for the qualified business). Additionally, the department manager indicated the percentage of the contractor time spent on each activity of a defined list of qualified and non-qualified activities. The results of each project manager's testimony of percentages that contractors spent performing qualified research activities and projects were then compiled.

Each contractors qualified research percentage was then applied to the contractor's invoiced costs calculate qualified contract research expenditures.

Section 2: Qualified Wage Research Expenditures Verification

4. Qualified Wages

I verified that the wages included as eligible expenditures are limited to wages paid for the performance, direct supervision, or direct support of qualified research and development.

Describe procedures performed to verify accuracy and documentation of qualified wage expenditures:

Example: Reviewed the wage qualified research expenditure schedule by employee, which included department, job title, total wages, qualified percentage, and qualified research expenditures. Selected a sample of employees coded to R&D projects. Reviewed job descriptions, project assignments, and timesheets to confirm that only employees performing, directly supervising, or directly supporting qualified research were included. No employees outside of the engineering or product management departments were qualified.

5. Iowa Location of Qualified Wages

I verified that the wages included as eligible expenditures are limited to services physically performed in Iowa by individuals legally authorized to work in Iowa.

Describe procedures performed to verify employee location and Iowa work allocation:

Example: Verified that qualified employees' primary work location was in Iowa by confirming that Box 15 on each employee's Form W-2 listed Iowa as the state of employment. For employees working in multiple states, reviewed timesheet entries to determine the percentage of time worked in Iowa and applied the same ratio to allocate qualified research wages.

Section 3: Qualified Contract Research Expenditures Verification

6. Qualified Contract Research Expenses

I verified that any amounts included as eligible expenditures that were paid to unrelated third parties were for qualified research and development performed on behalf of the qualified business.

Describe procedures performed to verify contract research eligibility:

Example: Reviewed the contract research qualified research expenditure schedule by vendor, which included department, account, total amount, qualified percentage, and qualified research expenditures. Selected a sample of qualified vendors making up over 80% of the total qualified research expenditures and reviewed taxpayer provided service descriptions to confirm that vendors were performing qualified research.

7. Rights and Risk for Contract Research

I verified that the qualified business retained substantial rights in the results and bore the financial risk of failure of the qualified research and development performed by a third party.

Describe procedures performed to confirm the qualified business rights and risk allocation under contract terms:

Example: Selected a sample of qualified contractors making up over 80% of the total qualified contract research expenditures and reviewed contract terms of master service agreements and statements of work related to qualified projects to confirm the qualified business retained ownership of the resulting intellectual property and bore the financial risk of failure.

8. Iowa Location of Contract Research

I verified that any amounts included as eligible expenditures that were paid to unrelated third parties were for qualified research and development physically performed in Iowa by individuals authorized to work in Iowa.

Describe procedures performed to verify Iowa location of contract research:

Example: Examined copies of vendor invoices, contracts, and statements of work to identify the service location and confirm that research activities were performed within Iowa. Verified that the billing address, service address, or project location stated in the agreement was located in Iowa.

9. 65% Limitation on Contract Research

I verified that only 65% of the eligible contract research expenses were included as eligible expenditures.

Describe procedures performed to verify application of the 65% limitation:

Example: Recomputed the 65% limitation on qualified contract research expenditures and confirmed the qualified business applied the reduction correctly in the Iowa credit calculation.

Section 4: Qualified Supply Expenditures Verification

10. Qualified Supply Expenses

I verified that only non-depreciable tangible property used directly in the conduct of qualified research and development was included as eligible expenditures.

Describe procedures performed to verify accuracy of qualified supply expenditures:

Example: Reviewed the supply qualified research expenditure schedule by vendor, which included department, account, total amount, qualified percentage, and qualified research expenditures by business component. Then, reviewed general ledger detail for R&D supply accounts to confirm accuracy of total amounts on the supply qualified research expenditure schedule. Last, tested a sample of purchases to invoices and confirmed the items were non-depreciable tangible property used directly in experimental prototypes or testing for qualified R&D projects.

11. Iowa Location of Supply Usage
I verified that only supplies used or consumed in Iowa in the conduct of qualified research and development were included as eligible expenditures.
Describe procedures performed to verify location of use or consumption:

Example: Subject matter experts overseeing qualified R&D projects with knowledge of the supplies and vendors verified the qualified business facility where the supplies were used or consumed in prototyping and testing. For the largest vendors, reviewed invoices from qualified supply vendors showing a ship to state of Iowa.

Section 5: Qualified Rental or Lease Cost of Computers Expenditures Verification

12. Qualified Computer and Cloud Computing Expenses
I verified that only rental or lease costs for computers or cloud computing resources used in qualified research were included as eligible expenditures, and that such resources were operated by third-party providers and not primarily used by the qualified business.
Describe procedures performed to verify inclusion of qualifying computer and cloud computing expenditures:

Example: Reviewed AWS billing statements and cost-center reports. Confirmed compute instances were provisioned under R&D project accounts, operated by a third-party provider, and not primarily used for general IT or production purposes.

13. Iowa Allocation of Computer and Cloud Computing Resources

I verified that amounts included as eligible expenditures relate only to computers physically located in Iowa or, for cloud computing resources, that an allocation methodology reasonably attributes usage to Iowa-based qualified research and development activities.

Describe procedures performed to verify computer location or review allocation methodology for Iowa cloud computing usage:

Example: Reviewed the qualified business's allocation method attributing cloud usage to Iowa projects based on project tagging and cost-management reports. Reperformed the allocation for one month and verified that the Iowa percentage was calculated accurately.

Section 6: Business Component Qualification

14. Nexus Between Qualified Research Expenditures and Qualified Business Components

I verified that expenditures were captured and allocated to qualified research and development activities at the business component level.

Describe methodology used to establish nexus between eligible expenditures and business components:

Example: Reviewed project tracking reports showing expenditures were tracked at the business component level. Confirmed that costs were directly related to qualified research activities for each project.

15. Four-Part Test

I verified that the qualified research and development activities associated with eligible expenditures met all four statutory tests under section 41(d) of the Internal Revenue Code: permitted purpose, elimination of uncertainty, process of experimentation, and technological in nature.

Describe procedures performed to confirm each component met the four-part test:

Example: Reviewed project descriptions written by subject matter experts directly performing or supervising qualified projects to determine the activities met all four statutory tests: (1) permitted purpose, (2) elimination of uncertainty, (3) process of experimentation, and (4) technological in nature. For a sample of business components, reviewed design memos and testing records and other contemporaneous documentation provided by the subject matter expert.

16. Funded Research

I verified that no expenditures were included for research to the extent funded by another person, grant, or governmental entity.

Describe procedures performed to confirm taxpayer was 'at risk' and retained substantial rights in the research results:

Example: For project X and project Y, both custom engineered for customers, reviewed development agreements between taxpayer and customer. Confirmed no qualified research expenditures were reimbursed or funded by the customer. Verified the qualified business was only paid contingent upon successful research and retained substantial rights to the research results.

Section 7: Credit Calculation and Apportionment

17. Credit Calculation Accuracy

I verified that the requested tax credit was accurately calculated consistent with Iowa Code, administrative rules, and the contract entered between the qualified business and IEDA.

Describe procedures performed to verify computation and consistency:

Example: Recomputed the credit at 3.5% of verified eligible Iowa expenditures. Traced figures to the qualified business's application schedules and confirmed the computation was consistent with administrative rules.

Section 8: CPA Signature

I am an independent certified public accountant authorized to practice in Iowa and not employed by the qualified business or a related entity. I performed the verification procedures described in this form in a manner consistent with applicable tax practice standards. Based on the information provided by the qualified business, the documentation reviewed, and consistent with applicable law, I reasonably concluded that the information set forth in this verification is more likely than not accurate and complete.

In my professional judgment, the expenditures claimed are more likely than not eligible under Iowa Code chapter 15, subchapter II, part 35, the applicable agreement, and 261 IAC chapter 82, in all material respects. This verification is not an audit, review, or attestation opinion.

Preparer Signature: ______________________________ Date: ________________

Instructions to CPA:
Maintain this form and all supporting documentation reviewed in connection with the verification procedures. Provide these materials to the qualified business for submission to the Iowa Economic Development Authority upon request.