



[SF 408](#) – Economic Development Authority Policy Bill (LSB1164SV.1)
Staff Contact: Molly Kilker (515.725.1286) molly.kilker@legis.iowa.gov
Fiscal Note Version – Revised (Division I)

Description

[Senate File 408](#) relates to various programs within the Iowa Economic Development Authority (IEDA). **Table 6** summarizes the fiscal impact of SF 408.

Division I — Tax Credit Programs

Description

Division I of the Bill amends the Innovation Fund Tax Credit (IFTC), Qualifying Business Tax Credit (QBTC), and Renewable Chemical Production Tax Credit (RCPTC) programs. The Division changes the annual cap on the allocation of tax credits from \$2.0 million for the QBTC program and \$8.0 million for the IFTC program to an aggregate annual cap of \$10.0 million for both programs.

The IFTC is amended by eliminating the wait list and extending the time the IEDA may certify an Innovation Fund from FY 2023 to FY 2028.

The Division is effective July 1, 2023, for investment tax credit program applications submitted to the IEDA for investments in Innovation Funds or qualifying businesses.

The Division removes serine, threonine, lysine, and nonfuel ethanol from the definition of “building block chemical” and increases the annual tax credit limit for companies that have been in existence for five years or more to \$1.0 million. The Division extends the availability of the tax credit to July 1, 2036, and extends the future repeal date to July 1, 2039. Division I of the Bill also extends the future repeal date for taxes imposed under Iowa Code sections [422.10B](#) and [422.33](#) from January 1, 2033, to January 1, 2041.

The Division amends Iowa Code section [15E.44](#) by adding that in addition to the current requirements, a business must also be engaged primarily in advanced manufacturing, biosciences, finance, insurance, information technology, or educational technology to qualify for the QBTC. Iowa Code section 15E.44 is also amended to shorten the requirement for an investor in a qualifying business to provide required information to the IEDA from within 120 days to within 60 days of the first investment. The Bill also requires that the IEDA verify the eligibility of a qualifying business and an investor’s investment in the qualifying business prior to issuing a credit certificate.

Background

The IFTC allows equity investments to be made into a qualifying Innovation Fund, which is administered by the IEDA. A certified Innovation Fund makes investments in promising early-stage companies whose principal business operations are located in Iowa if those companies are engaged primarily in advanced manufacturing, biosciences, and information technology. Iowa Code section [15E.52](#) defines an “innovative business” as one that engages

primarily in advanced manufacturing, biosciences, and information technology. The Bill adds “educational technology” to this definition.

The IEDA is also responsible for the QBTC, which is focused on “[angel investors](#)” that make investments directly into start-up companies.

In order to be a qualifying business, the business must meet all of the following criteria:

- The principal business operations are located in Iowa.
- The business has been in operation for six years or less.
- The business is participating in an entrepreneurial assistance program.
- The business is not primarily engaged in retail sales, real estate, or the provision of health care or other services that require a professional license.
- The net worth of the business does not exceed \$10.0 million.
- At the time of the application, the business has secured at least two investors and total equity financing, binding investment commitments, or some combination thereof, equal to at least \$500,000, from investors.

Because demand exceeds the existing annual cap, the IEDA is not currently accepting applications for the QBTC tax credit, effective April 1, 2022. The IEDA has waitlisted applications that were received and have not yet been awarded because the cap was reached. The wait list is projected to be fully awarded after July 1, 2025.

The RCPTC is available to approved businesses that produce renewable chemicals from biomass feedstock in Iowa. The tax credit is equal to \$0.05 per pound of renewable chemicals produced. To qualify for the credit, a business must apply to and enter into an agreement with the IEDA prior to the production of any pound of chemical that will earn the tax credit. The tax credit is available for qualified renewable chemicals produced from January 1, 2017, through December 31, 2035.

Assumptions

- Applications for the QBTC that are currently waitlisted will be awarded tax credit certifications in FY 2024, and no new applications for the QBTC will be accepted until the wait list is cleared.
- Claims will be made over the projected years at the current claim rate.
- The IEDA will allocate all of the \$10.0 million in tax credits available for FY 2024 to FY 2028 in the proportions based on past award information.
- Claim rates of tax credits will be similar to historical claim rates for both credits.

<u>Angel Investor (QBTC) Tax Credit Claim Rates</u>		<u>Innovation Fund Tax Credit Claim Rates</u>	
Year 0	0.0%	Year 0	2.0%
Year 1	33.0%	Year 1	24.0%
Year 2	37.0%	Year 2	37.0%
Year 3	8.0%	Year 3	14.0%
Year 4	3.0%	Year 4	7.0%
Year 5	2.0%	Year 5	4.0%
Year 6	1.0%	Year 6	2.0%
Total	84.0%	Total	90.0%

- All current requirements regarding minimum and maximum investments per company or fund, and maximum claims per taxpayer, are assumed to remain in place and to be met by applicants under the Bill.

- The QBTC and IFTC tax credit claims are estimated to begin in FY 2025, with Year 0 of the claim beginning in FY 2024.
- For the purposes of this estimate, 50.0% of the IFTC will have a local surtax impact, and 66.0% of the QBTC will have a local surtax impact.
- The proposed changes to the RCPTC program will not impact current RCPTC award recipients. Participating companies will continue to receive certificates prior to the existing deadline until five certificates have been awarded to each eligible business.
- Changes to program limits will not have a significant impact to the General Fund and are not included in the fiscal estimate.
- One new renewable chemical facility will qualify under the terms of Division I in each of the next three years.
- For the first renewable chemical facility, production will begin in CY 2025, the first certificate will be issued in FY 2026, and the first fiscal impact will occur in FY 2027. Additional facilities will follow the same fiscal pattern as the first renewable chemical facility.
- The production in all new facilities will be sufficient to be awarded the maximum credit of \$1.0 million per year for five years.
- The timing of future RCPTC claims will be similar to the historic timing of claims.
- Eliminating the wait list for the RCPTC and the IFTC will not reduce revenue, as neither program has reached the tax credit cap.
- There will be a negligible net impact to the General Fund for currently participating companies that have been in existence for five or more years.
- **Table 1** shows the timing of RCPTC claims by year based on historical trends.

Table 1 Timing of Refundable Tax Credits	
Year 1	35.4%
Year 2	37.6%
Year 3	26.1%
Year 4	0.9%
Total	100.0%

Fiscal Impact

Senate File 408 would increase investment tax credits awarded and claimed each year, thus decreasing revenues to the General Fund. The fiscal impact of expanding the definition of an “innovative business” and expanding the criteria for a “qualifying business” cannot be estimated with current data. **Table 2** shows the estimated General Fund revenue reduction for the IFTC.

Table 2 — IFTC Expected Claims (\$ in Millions)					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
IFTC Under Current Law	\$ -3.5	\$ -2.9	\$ -1.2	\$ -0.6	\$ -0.3
IFTC After Proposed Law	-3.6	-4.2	-4.5	-3.4	-4.7
Revenue Reduction due to Proposed Law	\$ -0.1	\$ -1.3	\$ -3.3	\$ -2.8	\$ -4.4

Table 3 shows the estimated General Fund revenue reduction for the QBTC.

Table 3 — QBTC Expected Claims (\$ in Millions)					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
QBTC Under Current Law	\$ -1.7	\$ -1.7	\$ -1.7	\$ -1.7	\$ -1.7
QBTC After Proposed Law	-1.7	-2.7	-3.7	-3.6	-3.6
Revenue Reduction	\$ -0.0	\$ -1.0	\$ -2.0	\$ -1.9	\$ -1.9

Table 4 shows the local surtax impact of the IFTC and the QBTC.

Table 4 — Local Surtax Impact					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
IFTC	\$ 1,250	\$ 16,313	\$ 40,375	\$ 35,856	\$ 55,288
QBTC	111	16,218	33,264	33,969	56,908
Total	\$ 1,361	\$ 32,530	\$ 73,639	\$ 69,825	\$ 112,195

The initial impact of the RCPTC program to the General Fund under Division I is projected to occur by FY 2027. The revenue reductions in the first four years, FY 2028 to FY 2031, are a result of the new awards and additional companies participating in the RCPTC program. The RCPTC program is estimated to reduce General Fund revenue by a total of \$9.3 million by FY 2031, as shown in **Table 5**.

Table 5	
General Fund	
Revenue Reduction	
(\$ Millions)	
FY 2027	\$ -0.4
FY 2028	-1.1
FY 2029	-2.1
FY 2030	-2.7
FY 2031	-3.0

Division II — Iowa Wine, Beer, and Spirits Promotion Board

Description

Division II of SF 408 broadens the membership of the Iowa Wine and Beer Promotion Board to include spirits. Correspondingly, the Board’s membership is increased from three members to four, each representing one of the three entities of the Board (wine, beer, and spirits) with a single representative from the IEDA. Moneys appropriated to the IEDA from the [Wine Gallonage Tax](#), [Barrel Tax Revenue](#), and [Beer and Liquor Control Fund](#), as well as moneys transferred to the IEDA, may be used by the IEDA to promote Iowa wine, beer, and spirits, including administrative expenses incurred under the promotion.

Division II transfers the lesser of \$250,000 or up to 1.0% of native distilled spirits revenue to the Board. The transfer from the Department of Commerce to the IEDA would be used to promote beer, wine, and spirits made in Iowa, as well as for administrative expenses related to the Board.

Assumptions

- Native distilled spirit sales are estimated to be between \$1.4 million and \$1.6 million annually.
- The predictions are based on historical sales data.

Fiscal Impact

Senate File 408 decreases revenue to the General Fund by between \$130,000 and \$160,000 per year beginning in FY 2024 and transfers the moneys to the IEDA to be used to support the Wine and Beer Promotion Board.

Summary of Fiscal Impact

Table 6 summarizes the estimated fiscal impact to the General Fund of SF 408.

		Table 6 — Estimated Total Fiscal Impact (\$ in Millions)				
Division	General Fund Impact	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
I	Renewable Chemical Production Tax Credit	\$ 0.0	\$ 0.0	\$ 0.0	\$ -0.4	\$ -1.1
I	Innovation Fund Tax Credit	-0.1	-1.3	-3.2	-2.9	-4.4
I	Qualifying Business Tax Credit	0.0	-1.0	-2.0	-1.9	-1.9
I	Local Surtax Impact	0.0	0.0	-0.1	-0.1	-0.1
II	Wine and Beer Promotion Board	-0.1	-0.1	-0.1	-0.1	-0.1
Total Revenue Reduction		\$ -0.2	\$ -2.4	\$ -5.4	\$ -5.4	\$ -7.6

Sources

Iowa Department of Revenue

Iowa Economic Development Authority

Alcoholic Beverages Division, Department of Commerce

Tax Credit Award, Claim, and Transfer Administration System (CACTAS)

/s/ Jennifer Acton

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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