Legislative Fiscal Bureau
Fiscal Note

HF 668 - Alternative Tax, Regents Originated Technology (LSB 1937 HZ)
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Fiscal Note Version — As Amended by H-1400

Description

House File 668, as amended by H-1400, creates two tax credits and a standing unlimited appropriation to encourage utilization of university-based research. The Bill creates a program to be administered by the Department of Economic Development. A new or existing business utilizing university-based research may apply to the Department for acceptance into the program. The Department is required to accept applicants into the program that meet the following criteria:

1. The applicant company utilizes technology developed by an employee(s) at a Board of Regents university. The technology must have received a patent after the effective date of the Bill. If the applicant business has been in existence for more than one year prior to application, a separate company must be established.
2. The applicant develops a five-year business plan approved by the Department. The plan must contain information concerning the applicant's Iowa employment goals and projected impact on the Iowa economy. For approval, the Department must determine the applicant shows sufficient potential impact on Iowa employment and economic development.
3. The applicant meets a minimum business size standard determined by the Department.
4. The applicant provides annual reports to the Department, including employment reports.

Once accepted, the company and the university employee(s) responsible for the research become eligible for a tax credit (corporate, personal income, etc.). The tax credit is equal to a percentage of the tax liability of the approved company for five years. The tax credits are equal to:

1. Approved applicant = 30.0%, limited to $225,000 per year and $600,000 total.
2. University employee(s) = 10.0%, limited to $225,000 per project per year and $600,000 total per project.

In addition, the Regents university where the research was conducted receives a General Fund appropriation equal to 30.0% of the approved company's tax liability for five years. For each project, the university appropriation is limited to $225,000 per year and $600,000 total. The appropriation for all such university incentives is established as a standing unlimited appropriation. The Bill also contains a standing appropriation of $45,000 per year to the Board of Regents.

Certificates may not be awarded prior to July 1, 2004.

Assumptions

1. The standing $45,000 appropriation to the Board of Regents will start in FY 2004.
2. Each fiscal year, three applicants will be approved for the program. One of the applicants will have sufficient Iowa income tax liability to fully utilize the tax credits over five years and the other two will utilize less than the maximum.
3. Once issued, all credits will be utilized by the applicant (the applicant will continue to be profitable).

Fiscal Impact

It is projected that HF 668, as amended by H-1400, will result in the issuance of the following tax credits and standing General Fund appropriations:

	Applicant Tax Credits Issued	University Employee Tax Credits	University Standing Appropriation	Total
FY 2005	$ 60,000	$ 20,000	$ -	$ 80,000
FY 2006	$ 525,000	$ 175,000	$ 60,000	$ 760,000
FY 2007	$ 650,000	$ 217,000	$ 525,000	$ 1,392,000
FY 2008	$ 1,000,000	$ 333,000	$ 650,000	$ 1,983,000
FY 2009	$ 1,275,000	$ 425,000	$ 1,000,000	$ 2,700,000

In addition, HF 668, as amended by H-1400, will increase General Fund appropriations by $45,000 in FY 2004 and each year thereafter.

If the incentives offered in HF 668, as amended by H-1400, produce additional Iowa employment and employer profits that would not otherwise exist without the incentives provided in the Bill, additional General Fund revenues will result. However, the degree to which the incentives in HF 668, as amended by H-1400, or any other tax or other incentive contributed to economic activity cannot be accurately determined at this time.

Source

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/s/ Dennis C Prouty

April 22, 2003

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.