

# **Employee Stock Ownership Plan Bill House File 2284**

Last Action:  
**House Appropriations  
Committee**  
February 8, 2012

**An Act relating to employee stock ownership plans by encouraging the adoption of such plans by Iowa corporations, creating an individual income tax exemption, making an appropriation, and including retroactive applicability provisions.**

**Fiscal Services Division  
Legislative Services Agency**

## **NOTES ON BILLS AND AMENDMENTS (NOBA)**

Available on line at <http://www.legis.iowa.gov/LSAReports/noba.aspx>  
LSA Contact: Jeff Robinson (515-281-4614)

**FUNDING SUMMARY**

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- Provides a \$1.0 million FY 2013 General Fund appropriation to the Economic Development Authority. The purpose of the appropriation is to provide financial and technical assistance, as well as marketing and education services, to businesses interested in establishing Employee Stock Ownership Plans (ESOP). Page 1, Line 3
- Creates a State income tax exemption for capital gains earned from the sale of employer securities to a qualified Iowa ESOP. Page 1, Line 31

FISCAL IMPACT: The capital gains exemption will reduce individual income taxes owed to the State by qualified taxpayers by the estimated amounts:

- FY 2013 = \$-1.0 million
- FY 2014 = \$-1.0 million
- FY 2015 = \$-1.1 million
- FY 2016 = \$-1.2 million

House File 2284 provides for the following changes to the Code of Iowa.

<b>Page #</b>	<b>Line #</b>	<b>Bill Section</b>	<b>Action</b>	<b>Code Section</b>	<b>Description</b>
1	31	2	Add	422.7.21.e	

1 1 DIVISION I  
 1 2 ESOP FORMATION ASSISTANCE

1 3 Section 1. EMPLOYEE STOCK OWNERSHIP PLAN ASSISTANCE AND  
 1 4 PROMOTION.

1 5 1. There is appropriated from the general fund of the state  
 1 6 to the economic development authority for the fiscal year  
 1 7 beginning July 1, 2012, and ending June 30, 2013, the following  
 1 8 amount, or so much thereof as is necessary, to be used for the  
 1 9 purposes designated:

1 10 For providing financial assistance, including establishment  
 1 11 of a loan program, and technical assistance, marketing, and  
 1 12 education to businesses interested in establishing employee  
 1 13 stock ownership plans and for procuring the services of an  
 1 14 independent contractor with expertise in the formation of  
 1 15 employee stock ownership plans:

1 16 ..... \$ 1,000,000

1 17 Notwithstanding section 8.33, moneys appropriated pursuant  
 1 18 to this section shall not revert but shall remain available to  
 1 19 the economic development authority for the purposes designated  
 1 20 until expended. Notwithstanding section 12C.7, subsection 2,  
 1 21 earnings or interest on moneys appropriated pursuant to this  
 1 22 section shall be retained by the economic development authority  
 1 23 and used for the purposes designated until expended.

1 24 2. On or before January 15, 2014, the authority shall  
 1 25 provide to the general assembly and the governor's office a  
 1 26 report describing the expenditure of funds pursuant to this  
 1 27 section and evaluating the success of the assistance and  
 1 28 promotion program.

1 29 DIVISION II  
 1 30 CAPITAL GAIN DEDUCTION FOR SALE TO AN IOWA ESOP

1 31 Sec. 2. Section 422.7, subsection 21, Code Supplement 2011,  
 1 32 is amended by adding the following new paragraph:

1 33 NEW PARAGRAPH e. (1) To the extent not already excluded,  
 1 34 the net capital gain from the sale or exchange of employer  
 1 35 securities of an Iowa corporation to a qualified Iowa employee  
 2 1 stock ownership plan when, upon completion of the transaction,  
 2 2 the qualified Iowa employee stock ownership plan owns at least  
 2 3 thirty percent of all outstanding employer securities issued  
 2 4 by the Iowa corporation.

2 5 (2) For purposes of this paragraph:

2 6 (a) "Employer securities" means the same as defined in  
 2 7 section 409(l) of the Internal Revenue Code.

2 8 (b) "Iowa corporation" means a corporation whose commercial

Provides a \$1.0 million FY 2013 General Fund appropriation to the Economic Development Authority. The purpose of the appropriation is to provide financial and technical assistance, as well as marketing and education services, to businesses interested in establishing Employee Stock Ownership Plans (ESOP).

CODE: Requires nonreversion of these funds and directs the interest earned on the appropriated funds to be retained by the Authority and used for the purposes of the appropriation.

Requires that the Economic Development Authority, on or before January 15, 2014, provide a report to the General Assembly and the Governor. The report shall describe how the appropriated funds were expended and shall evaluate the success of the new program.

CODE: Creates a State income tax exemption for capital gains earned from the sale of employer securities to a qualified Iowa ESOP. To qualify for the income tax exemption, upon completion of the sale, the ESOP must own at least 30.0% of the outstanding employer securities issued by the company. The income tax exemption applies retroactively to January 1, 2012.

FISCAL IMPACT: The capital gains exemption will reduce individual income taxes owed to the State by qualified taxpayers by the estimated amounts:

- FY 2013 = \$-1.0 million
- FY 2014 = \$-1.0 million

2 9 domicile, as defined in section 422.32, is in this state.  
2 10 (c) "Qualified Iowa employee stock ownership plan" means an  
2 11 employee stock ownership plan, as defined in section 4975(e)(7)  
2 12 of the Internal Revenue Code, and trust that are established  
2 13 by an Iowa corporation for the benefit of the employees of the  
2 14 corporation.

2 15 Sec. 3. RETROACTIVE APPLICABILITY. This division of this  
2 16 Act applies retroactively to January 1, 2012, for tax years  
2 17 beginning on or after that date.

- FY 2015 = \$-1.1 million
- FY 2016 = \$-1.2 million

In addition, the tax reduction will also reduce taxes owed through the individual income surtax for schools by \$30,000 per tax year.

Division II, creating an income tax exemption for qualified ESOP sales, is retroactive to the beginning of tax year 2012.

# Summary Data

## General Fund

	<u>Actual FY 2011 (1)</u>	<u>Estimated FY 2012 (2)</u>	<u>Enacted FY 2013 (3)</u>	<u>House Approp FY 2013 (4)</u>	<u>FY 2013 House Approp Total (5)</u>	<u>House Appr vs FY 12 Est (6)</u>
Economic Development	\$ 0	\$ 0	\$ 0	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
<b>Grand Total</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

# Economic Development General Fund

	<u>Actual FY 2011 (1)</u>	<u>Estimated FY 2012 (2)</u>	<u>Enacted FY 2013 (3)</u>	<u>House Approp FY 2013 (4)</u>	<u>FY 2013 House Approp Total (5)</u>	<u>House Appr vs FY 12 Est (6)</u>
<u>Economic Development Authority</u>						
Economic Development Authority Employee Stock Ownership	\$ 0	\$ 0	\$ 0	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Total Economic Development Authority	\$ 0	\$ 0	\$ 0	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Total Economic Development	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>