

Small Business Amend (3200) - Do Pass 3/19/87 (A 195)

Senate File 369

SMALL BUSINESS AND ECONOMIC DEVELOPMENT: Boswell, Chair, A
Miller and Holt

Reprovision 3/23/87

Senate File 369

WAYS AND MEANS: Gronstal, Chair; Holt and Mann

SENATE FILE 369

BY BOSWELL

Passed Senate, Date _____ Passed House, Date _____

Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____

Approved _____

A BILL FOR

1 An Act relating to regional venture capital companies, providing
2 certain tax credits, and providing for retroactive
3 applicability.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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SF 369

1 Section 1. NEW SECTION. 12.43 DEFINITIONS.

2 For purposes of this division, unless the context otherwise
3 requires:

4 1. "Area XIV" means the area encompassing the merged area,
5 as defined in section 280A.2, designated number XIV on the ef-
6 fective date of this Act.

7 2. "Selected Iowa business" means a small business meeting
8 the criteria of the small business administration or a farming
9 operation which is owned by a resident of area XIV, a
10 partnership, association, or corporation domiciled in area
11 XIV, or a corporation which is a wholly owned subsidiary of a
12 corporation domiciled outside the area that does business
13 primarily in area XIV and does substantially all of its
14 production in area XIV.

15 3. "Research and experimental expenditures" means the ex-
16 penditures allowable as a deduction under section 174 of the
17 Internal Revenue Code, as defined in section 422.3.

18 4. "Venture capital company" means a for-profit
19 partnership or corporation that has as its primary business
20 activity the investment of funds in return for equity and
21 ventures that are in need of capital for expansion, new
22 product development, research and experimental expenditures,
23 or similar business purposes.

24 Sec. 2. NEW SECTION. 12.44 PURPOSE -- STATE INVESTMENT.

25 1. The purpose of this division is to aid in establishing
26 a regional system of risk capital accumulation and economic
27 development to:

28 a. Develop a risk capital system by investing state funds
29 to match private risk capital for investment in Iowa
30 businesses. This combined public and private investment will
31 be used to provide loans or equity capital to further growth,
32 diversification, and improvement of Iowa's economy, especially
33 in the nonmetropolitan areas, to a diversified range of
34 businesses concerned with products, processes, and services
35 that create jobs, wealth, and income for the benefit of Iowa

1 and its citizens.

2 b. To foster innovation in existing industry and
3 developing businesses, especially the creation, growth, and
4 expansion of enterprises in value-added products, processes,
5 and services.

6 c. To encourage increased research and experimental
7 expenditures within the regions of the state by providing tax
8 credits to taxpayers who make these additional investments.

9 2. To aid in establishing a regional system of risk
10 capital accumulation and economic development, the treasurer
11 of state may invest in the nonvoting preferred stock of a
12 regional venture capital company which meets the
13 specifications of section 12.45. State investment shall not
14 exceed five million dollars and shall be made only after a
15 dollar-for-dollar match of private investment in the common
16 stock of the regional venture capital company is made.

17 Sec. 3. NEW SECTION. 12.45 VENTURE CAPITAL COMPANY.

18 Before the treasurer of state may invest state funds in a
19 venture capital company, the company shall meet or agree to
20 the following:

21 1. The venture capital company will be governed by a board
22 of directors consisting of fifteen members from area XIV as
23 follows:

24 a. Four members will be from the regional coordinating
25 council for area XIV.

26 b. Four members will be from the farm sector.

27 c. Four members will be from the business sector.

28 d. Three members will be from the public sector.

29 The members will be geographically disbursed with at least
30 one member from each county in area XIV and one member from
31 the community college in area XIV.

32 2. The board of directors will evaluate and analyze
33 selected Iowa businesses for venture capital participation,
34 make decisions concerning investment, oversee and evaluate the
35 investments made, oversee the implementation of area XIV's

1 economic development plan, monitor updates of that plan, and
2 communicate with the Iowa department of economic development.

3 3. The company will seek additional funding from the small
4 business administration. The funds received as equity invest-
5 ment from the state and private sector and as loans from the
6 small business administration shall be invested so as not to
7 compromise the integrity of the federal Small Business
8 Association Investment Act of 1977.

9 4. The company shall prepare and publish an annual report
10 of its activities for the information of the governor and the
11 private and legislative committees on economic development.
12 This report will outline and analyze how funds were spent and
13 estimate the jobs created.

14 Sec. 4. NEW SECTION. 422.10A VENTURE CAPITAL COMPANY IN-
15 VESTMENT CREDIT.

16 The taxes imposed under this division, less credits
17 permitted under section 422.12, shall be reduced by a state
18 tax credit equal to twenty-five percent of the taxpayer's
19 investment in the initial offering of common stock by a
20 venture capital company of which state funds may be invested
21 under sections 12.43 through 12.45. Up to one-fourth of the
22 credit may be taken in the tax year, but the amount of the
23 credit shall not exceed twenty-five percent of the tax
24 liability before any credits have been taken. Any excess
25 credit for the tax year may be credited to the tax liability
26 for the following tax years until depleted.

27 In the case of an estate or trust, the credit shall be
28 allocated between each beneficiary and the estate or trust
29 based on the ratio that the income distributed to a
30 beneficiary bears to the total distributable net income of the
31 estate or trust for the tax year.

32 Sec. 5. NEW SECTION. 422.10B RESEARCH AND EXPERIMENTAL
33 EXPENDITURES CREDIT.

34 The taxes imposed under this division shall be reduced by a
35 state tax credit for increasing certain research activities in

1 this state. For individuals, the credit equals ten percent of
2 the excess of the state's apportioned share of the qualifying
3 research and experimental expenditures over the average of
4 such expenditures for the taxpayer's preceding three tax
5 years. The state's apportioned share of the qualifying
6 expenditures is a percent equal to the ratio of qualified
7 expenditures in this state to total qualified expenditures.
8 For purposes of this section, an individual may claim a credit
9 for qualifying expenditures incurred by a partnership,
10 subchapter S corporation, and estate or trust electing to have
11 the income taxed directly to the individual. The amount
12 claimed by the individual shall be based upon the pro rata
13 share of the individual's earnings of a partnership,
14 subchapter S corporation, or estate or trust. For purposes of
15 this section, "qualifying research and experimental
16 expenditures" means the research and experimental expenditures
17 which may be treated as expenses which are not chargeable to
18 capital account under section 174 of the Internal Revenue
19 Code. Up to one-fourth of the credit may be taken in the tax
20 year, but the amount of the credit shall not exceed twenty
21 percent of the tax liability before any credits have been
22 taken.

23 Any excess credit may be carried back for up to three tax
24 years or carried forward until depleted.

25 Sec. 6. Section 422.33, Code 1987, is amended by adding
26 the following new subsections:

27 NEW SUBSECTION. 8. The taxes imposed under this division
28 shall be reduced by a state tax credit equal to twenty-five
29 percent of the taxpayer's investment in the initial offering
30 of common stock by a venture capital company of which state
31 funds may be invested under sections 12.43 through 12.45. Up
32 to one-fourth of the credit may be taken in the tax year, but
33 the amount of the credit shall not exceed twenty-five percent
34 of the tax liability before any credits have been taken. Any
35 excess credit for the tax year may be credited to the tax

1 liability for the following tax years until depleted.

2 NEW SUBSECTION. 9. The taxes imposed under this division
3 shall be reduced by a state tax credit for increasing certain
4 research activities in this state. The credit equals ten
5 percent of the excess of the state's apportioned share of the
6 qualifying research and experimental expenditures over the
7 average of such expenditures for the taxpayer's preceding
8 three tax years. The state's apportioned share of the
9 qualifying expenditures is a percent equal to the ratio of
10 qualified expenditures in this state to total qualified
11 expenditures. For purposes of this subsection, "qualifying
12 research and experimental expenditures" means the research and
13 experimental expenditures which may be treated as expenses
14 which are not chargeable to capital account under section 174
15 of the Internal Revenue Code. Up to one-fourth of the credit
16 may be taken in the tax year, but the amount of the credit
17 shall not exceed twenty percent of the tax liability before
18 any credits have been taken.

19 Any excess credit may be carried back for up to three tax
20 years or carried forward until depleted.

21 Sec. 7. Section 422.63, Code 1987, is amended by adding
22 the following new unnumbered paragraph:

23 NEW UNNUMBERED PARAGRAPH. The tax imposed under this
24 division shall be reduced by a venture capital company invest-
25 ment credit as provided in section 422.33, subsection 8.

26 Sec. 8. Sections 4 through 7 of this Act are retroactive
27 to January 1, 1987 for tax years beginning on or after that
28 date.

29 **EXPLANATION**

30 This bill authorizes the treasurer of state to invest state
31 funds in the nonvoting preferred stock of a venture capital
32 company that invests its funds in businesses located in or
33 doing substantial production in area XIV. The state may
34 invest up to \$5,000,000 to be matched dollar-for-dollar by
35 private investment in the common stock. The bill provides tax

1 credits for purchase of the common stock of this venture
2 capital company and for increasing research and experimental
3 expenditures in the state.

4 The tax credits are retroactive to January 1, 1987 for tax
5 years beginning on or after that date.

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SENATE FILE 369

3200

1 Amend Senate File 369 as follows:

2 1. Page 1, by striking lines 4 through 6 and
3 inserting the following:

4 "1. "Merged area" means the same as defined in
5 section 280A.2."

6 2. Page 1, line 9, by striking the word and
7 figure "area XIV" and inserting the following: "the
8 merged area".

9 3. Page 1, lines 10 and 11, by striking the word
10 and figure "area XIV" and inserting the following:
11 "the merged area".

12 4. Page 1, line 13, by striking the word and
13 figure "area XIV" and inserting the following: "the
14 merged area".

15 5. Page 1, line 14, by striking the word and
16 figure "area XIV" and inserting the following: "the
17 merged area".

18 6. Page 2, line 12, by striking the word and
19 figure "area XIV" and inserting the following: "the
20 merged area".

21 7. Page 2, line 25, by striking the word and
22 figure "area XIV" and inserting the following: "the
23 merged area".

24 8. Page 2, line 30, by striking the word and
25 figure "area XIV" and inserting the following: "the
26 merged area".

27 9. Page 2, line 31, by striking the word and
28 figure "area XIV" and inserting the following: "the
29 merged area".

30 10. Page 2, line 35, by striking the word and
31 figure "area XIV's" and inserting the following: "the
32 merged area's".

S-3200

Filed March 19, 1987

BY COMMITTEE ON SMALL BUSINESS
AND ECONOMIC DEVELOPMENT
LEONARD L. BOSWELL, Chairperson