

SENATE FILE 2352  
BY COMMITTEE ON SMALL BUSINESS  
AND ECONOMIC DEVELOPMENT

FILED FEB 15 1990

(SUCCESSOR TO SSB 2228)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

A BILL FOR

1 An Act providing a venture capital income tax credit, authorizing  
2 expedited merit review for small issues under the state  
3 securities law, and providing effective and applicability  
4 dates.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:  
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SF 2352

1 Section 1. NEW SECTION. 422.11C VENTURE CAPITAL CREDIT.

2 1. The taxes imposed under this division less credits  
3 allowed under sections 422.10, 422.11A, 422.11B, and 422.12,  
4 shall be reduced by a venture capital credit.

5 2. The amount of the credit is equal to ten percent of a  
6 taxpayer's investment during the tax year that the initial  
7 offering of securities by a qualified business and seed or  
8 venture capital fund is made.

9 3. The investment in a seed or venture capital fund shall  
10 be in one of the following:

11 a. Shares or other equity interests.

12 b. A seed or venture capital fund registered under an  
13 expedited registration by filing system for small issuers in  
14 which the commissioner must object within a limited time or  
15 the registration is effective.

16 4. A qualified business shall meet all of the following  
17 conditions:

18 a. The business is a corporation that operates a value-  
19 added business which may include, but is not limited to,  
20 manufacturing or transformation of goods for sale or rent,  
21 construction, transportation, tourism or recreation, or mining  
22 or mineral development.

23 b. The shares are purchased for money consideration and  
24 carry full voting rights.

25 c. The shares are sold in an offering registered under an  
26 expedited registration system as defined in subsection 3,  
27 paragraph "b".

28 5. If during the tax year, the investment or a portion of  
29 the investment is disposed of prior to having been owned by  
30 the taxpayer for two years, the tax under this division is  
31 increased by the amount of the credit taken on the investment  
32 or portion of the investment.

33 6. Any credit in excess of the tax liability for the tax  
34 year may be credited to the tax liability for the following  
35 five years or until depleted, whichever is earlier.

1     Sec. 2. Section 422.33, Code Supplement 1989, is amended  
2 by adding the following new subsection:

3     NEW SUBSECTION. 8. The taxes imposed under this division  
4 shall be reduced by a venture capital credit.

5     a. The amount of the credit is equal to ten percent of a  
6 taxpayer's investment during the tax year in the initial  
7 offering in new stock issues of common voting stock by a  
8 qualified business and seed or venture capital fund.

9     b. The investment in a seed or venture capital fund shall  
10 be in one of the following:

11     (1) Shares or other equity interests.

12     (2) A seed or venture capital fund registered under an  
13 expedited registration by filing system for small issuers in  
14 which the commissioner must object within a limited time or  
15 the registration is effective.

16     c. A qualified business shall meet all of the following  
17 conditions:

18     (1) The business is a corporation that operates a value-  
19 added business which may include, but is not limited to,  
20 manufacturing or transformation of goods for sale or rent,  
21 construction, transportation, tourism or recreation, or mining  
22 or mineral development.

23     (2) The shares are purchased for money consideration and  
24 carry full voting rights.

25     (3) The shares are sold in an offering registered under an  
26 expedited registration system as defined in paragraph "b",  
27 subparagraph (2).

28     d. If during the tax year, the investment or a portion of  
29 the investment is disposed of prior to having been owned by  
30 the taxpayer for two years, the tax under this division is  
31 increased by the amount of the credit taken on the investment  
32 or portion of the investment.

33     e. Any credit in excess of the tax liability for the tax  
34 year may be credited to the tax liability for the following  
35 five years or until depleted, whichever is earlier.

1     Sec. 3. NEW SECTION. 502.207A REGISTRATION BY FILING FOR  
2 SMALL ISSUERS.

3     1. A security meeting the conditions set forth in this  
4 section may be registered by filing as provided in this  
5 section.

6     2. In order to register under this section, the issuer  
7 must meet all of the following conditions:

8     a. The issuer must be a corporation or partnership  
9 organized under the laws of one of the states or possessions  
10 of the United States which engages in or proposes to engage in  
11 a business other than petroleum exploration or production  
12 mining or other extractive industries.

13    b. The securities must be offered and sold only on behalf  
14 of the issuer, and must not be used by any selling security  
15 holder to register securities for resale.

16    3. In order to register under this section, all of the  
17 following conditions must be satisfied:

18    a. The offering price for common stock, the exercise price  
19 if the securities are options, warrants, or rights for common  
20 stock, or the conversion price if the securities are  
21 convertible into common stock must be equal to or greater than  
22 five dollars per share. The issuer must not split its common  
23 stock, or declare a stock dividend, for two years after  
24 effectiveness of the registration, except that in connection  
25 with a subsequent registered public offering, the issuer may  
26 upon application and consent of the administrator take such  
27 action.

28    b. A commission, fee, or other remuneration shall not be  
29 paid or given, directly or indirectly, for the sale of the  
30 securities, except for a payment to a broker-dealer or agent  
31 registered under this chapter, or except for a payment as  
32 permitted by the administrator by rule or by order issued upon  
33 written application showing good cause for allowance of a  
34 commission, fee, or other remuneration.

35    c. The issuer or a broker-dealer offering or selling the

1 securities is not or would not be disqualified under rule 505,  
2 17 C.F.R. § 230.505 (2)(iii), adopted under the federal  
3 Securities Act of 1933.

4 d. The aggregate offering price of the offering of  
5 securities by the issuer within or outside this state must not  
6 exceed one million dollars, less the aggregate offering price  
7 for all securities sold within twelve months before the start  
8 of, and during the offering of, the securities under rule 504,  
9 17 C.F.R. § 230.504, in reliance on any exemption under  
10 section 3(b) of the federal Securities Act of 1933 or in  
11 violation of section 5(a) of that Act; provided, that if rule  
12 504, 17 C.F.R. § 230.504, adopted under the Securities Act of  
13 1933, is amended after the effective date of this section, the  
14 administrator may by rule increase the limit under this  
15 paragraph to conform to that increased amount.

16 e. An offering document meeting the disclosure  
17 requirements of rule 502(b)(2), 17 C.F.R. § 230.502(b)(2),  
18 adopted under the Securities Act of 1933, must be delivered to  
19 each purchaser in the state prior to the sale of the  
20 securities, unless the administrator by rule or order provides  
21 for disclosure different from that rule.

22 f. The issuer must file with the administrator an  
23 application for registration and the offering document to be  
24 used in connection with the offer and sale of securities.

25 g. The issuer must pay to the administrator a fee of one  
26 hundred dollars and is not required to pay the filing fee set  
27 forth in section 502.208, subsection 2.

28 4. Unless the administrator issues a stop order denying  
29 the effectiveness of the registration, as provided in section  
30 502.209, the registration becomes effective on the fifth  
31 business day after the registration has been filed with the  
32 administrator, or earlier if the administrator permits a  
33 shorter time period between registration and effectiveness.

34 5. In connection with an offering registered under this  
35 section, a person may be registered as an agent of the issuer

1 under section 502.301 by the filing of an application by the  
2 issuer with the administrator for the registration of the  
3 person as an agent of the issuer and the paying of a fee of  
4 ten dollars. Notwithstanding any other provision of this  
5 chapter, the registration of the agent shall be effective  
6 until withdrawn by the issuer or until the securities  
7 registered pursuant to the registration statement have all  
8 been sold, whichever occurs first. The registration of an  
9 agent shall become effective when ordered by the administrator  
10 or on the fifth business day after the agent's application has  
11 been filed with the administrator, whichever occurs first, and  
12 the administrator shall not impose further conditions upon the  
13 registration of the agent. However, the administrator may  
14 deny, revoke, suspend, or withdraw the registration of the  
15 agent at any time as provided in section 502.304.

16 Notwithstanding section 502.302, subsection 5, for the  
17 purposes of registration of agents under this section, the  
18 issuer and agent are not required to post bond. An agent  
19 registered solely pursuant to this section is entitled to sell  
20 only securities registered under this section.

21 6. This section is not applicable to any of the following  
22 issuers:

23 a. An investment company, including a mutual fund.

24 b. An issuer subject to the reporting requirements of  
25 section 13 or 15(d) of the federal Securities Exchange Act of  
26 1934.

27 c. A direct participation program, unless otherwise  
28 permitted by the administrator by rule or order for good  
29 cause.

30 d. A blind pool or other offering for which the specific  
31 business or properties cannot now be described, unless the  
32 administrator determines that the blind pool is a community  
33 development, seed, or venture capital fund for which the  
34 administrator permits a waiver.

35 7. Notwithstanding any other provision of this chapter,

1 the administrator shall not deny effectiveness to or suspend  
2 or revoke the effectiveness of a registration under this  
3 section on the basis of section 502.209, subsection 1,  
4 paragraph "h", and the administrator shall not impose the  
5 conditions specified in section 502.208, subsection 8,  
6 subsection 9, paragraph "b", or subsection 12. The  
7 administrator may issue a stop order pursuant to section  
8 502.209 to filers under this section for any of the following  
9 additional reasons:

10 a. The issuer's principal place of business is not in this  
11 state.

12 b. At least fifty percent of the issuer's full-time  
13 employees are not located in this state.

14 c. At least eighty percent of the net proceeds of the  
15 offering are not going to be used in connection with the  
16 operations of the issuer in this state.

17 d. If the issuer is a seed or venture capital fund, at  
18 least fifty percent of the moneys received from the sale of  
19 the securities will not be used to make seed or venture  
20 capital investments in this state.

21 Sec. 4. Section 502.611, Code 1989, is amended by adding  
22 the following new unnumbered paragraph:

23 NEW UNNUMBERED PARAGRAPH. This chapter may be construed  
24 and implemented to effectuate its general purpose to protect  
25 investors, and consistent with that purpose, to encourage  
26 capital formation, job creation, and free and competitive  
27 securities markets and to minimize regulatory burdens on  
28 issuers and persons subject to this chapter, especially small  
29 businesses.

30 Sec. 5.

31 Sections 1, 3, and 4 of this Act, being deemed of immediate  
32 importance, take effect upon enactment.

33 Sec. 6.

34 Section 2 of this Act takes effect July 1, 1991, and  
35 applies to eligible investments made on or after that date.

1 Sec. 7.

2 Section 1 of this Act is repealed January 1, 1993.

3 Sec. 8.

4 Section 2 of this Act is repealed January 1, 1994.

5 EXPLANATION

6 This bill provides an income tax credit for an investment  
7 in new stock issues by qualified corporations and a qualified  
8 seed or venture capital fund. The credit is 10 percent of the  
9 taxpayer's investment and may be credited to the tax liability  
10 of the following tax year.

11 A qualified corporation and venture capital fund shall meet  
12 several requirements in order to qualify for the tax credit.

13 The bill applies retroactively to tax years beginning on or  
14 after January 1, 1990.

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SCOTT, CH.  
BOSWELL  
R.F.F.

SSB 2228  
SMALL BUSINESS/ECONOMIC  
DEVELOPMENT

SENATE FILE 8.352

BY (PROPOSED COMMITTEE ON SMALL  
BUSINESS AND ECONOMIC  
DEVELOPMENT BILL BY  
CHAIRPERSON BOSWELL)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

A BILL FOR

1 An Act providing a venture capital income tax credit and  
2 providing a retroactive applicability date.  
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. NEW SECTION. 422.11C VENTURE CAPITAL TAX  
2 CREDIT.

3 1. The taxes imposed under this division, less credits  
4 allowed under sections 422.10, 422.11A, 422.11B, 422.12, and  
5 422.12B, shall be reduced by a venture capital tax credit  
6 equal to ten percent of the taxpayer's investment in new stock  
7 issues by a qualified corporation and a qualified seed or  
8 venture capital fund. A credit in excess of the tax liability  
9 for the tax year may be credited to the tax liability for the  
10 following tax year.

11 2. To be a qualified corporation the following conditions  
12 must be met:

13 a. The corporation must have its principal place of  
14 business in this state.

15 b. The corporation must generally operate a value-added  
16 business which may include, but is not limited to,  
17 manufacturing or transformation of goods for sale or rent,  
18 construction, transportation, tourism or recreation, or mining  
19 or mineral development.

20 c. The corporation's shares must be purchased for money  
21 consideration and carry full voting rights.

22 d. The corporation's shares must be sold in an offering  
23 registered under chapter 502, or sold pursuant to the uniform  
24 limited offering exemption authorized or established by the  
25 commissioner of insurance.

26 3. To be a qualified seed or venture capital fund the  
27 following conditions must be met:

28 a. The investment must be in shares or other equity  
29 interests.

30 b. The fund's principal place of business must be in this  
31 state.

32 c. The fund must represent that not less than fifty  
33 percent of the moneys received from the sale of shares or  
34 equity interests will be used to make seed or venture capital  
35 investments in businesses in this state.

1 4. In order for the amount of the investment to remain  
2 eligible for the credit, the taxpayer must hold shares of the  
3 same value for two complete calendar years following the year  
4 of purchase. Shares originally purchased may be sold and  
5 replaced with other eligible shares within the two years  
6 following the year of purchase.

7 Sec. 2. Section 422.33, Code Supplement 1989, is amended  
8 by adding the following new subsection:

9 NEW SUBSECTION. 8. a. The taxes imposed under this  
10 division shall be reduced by a venture capital tax credit  
11 equal to ten percent of the corporation's investment in new  
12 stock issues by a qualified corporation and a qualified seed  
13 or venture capital fund.

14 b. To be a qualified corporation the following conditions  
15 must be met:

16 (1) The corporation must have its principal place of  
17 business in this state.

18 (2) The corporation must operate a value-added business  
19 which may include, but is not limited to, manufacturing or  
20 transformation of goods for sale or rent, construction,  
21 transportation, tourism or recreation, or mining or mineral  
22 development.

23 (3) The shares must be purchased for money consideration  
24 and carry full voting rights.

25 (4) The shares must be sold in an offering registered  
26 under chapter 502, or sold pursuant to the uniform limited  
27 offering exemption as authorized or established by the  
28 commissioner of insurance.

29 c. To be a qualified seed or venture capital fund all of  
30 the following conditions must be met:

31 (1) The investment must be in shares or other equity  
32 interests.

33 (2) The fund's principal place of business must be in this  
34 state.

35 (3) The fund must represent that not less than fifty

1 percent of the moneys received from the sale of shares or  
2 equity interests will be used to make seed or venture capital  
3 investments in businesses in this state.

4 d. In order for the amount of the investment to remain  
5 eligible for the credit, the taxpayer must hold shares of the  
6 same value for two complete calendar years following the year  
7 of purchase. Shares originally purchased may be sold and  
8 replaced with other eligible shares within the two years  
9 following the year of purchase.

10 Sec. 3.

11 This Act applies retroactively to tax years beginning on or  
12 after January 1, 1990.

13 EXPLANATION

14 This bill provides an income tax credit for an investment  
15 in new stock issues by qualified corporations and a qualified  
16 seed or venture capital fund. The credit is 10 percent of the  
17 taxpayer's investment and may be credited to the tax liability  
18 of the following tax year.

19 A qualified corporation and venture capital fund shall meet  
20 several requirements in order to qualify for the tax credit.

21 The bill applies retroactively to tax years beginning on or  
22 after January 1, 1990.

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