

FILED FEB 18 1990

SENATE FILE 2384  
BY COMMITTEE ON SMALL BUSINESS  
AND ECONOMIC DEVELOPMENT

(SUCCESSOR TO SF 2116)

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

A BILL FOR

1 An Act providing for the certification of local seed capital  
2 pools, providing a local seed capital pool income tax credit,  
3 and providing for a retroactive applicability date.  
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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SF 2384

1 Section 1.

2 Sections 28.171 through 28.176 are enacted as a new  
3 division of chapter 28.

4 Sec. 2. NEW SECTION. 28.171 TITLE OF ACT.

5 This division is entitled the "Iowa Local Seed Capital  
6 Pools Act".

7 Sec. 3. NEW SECTION. 28.172 DEFINITIONS.

8 As used in this division, unless the context otherwise  
9 requires:

10 1. "Department" means the Iowa department of economic  
11 development.

12 2. "Iowa business" means any small business as defined in  
13 section 15.102 and owned by an individual, partnership,  
14 association, or corporation domiciled in Iowa, or any  
15 corporation, even if a wholly owned subsidiary of a foreign  
16 corporation, that does business primarily in Iowa or does  
17 substantially all of the business production in Iowa.

18 3. "Local seed capital pool" means a fund established to  
19 receive investments to provide funding for use by Iowa  
20 businesses for one or more of the following purposes:

21 a. Development of a prototype product or process.

22 b. A market study to determine the feasibility of a new  
23 product or process.

24 c. A business plan for the development and production of a  
25 new product or process.

26 Sec. 4. NEW SECTION. 28.173 PURPOSE.

27 The purpose of the Iowa local seed capital pools Act is to  
28 assist in the formation of seed capital funds for investment  
29 in Iowa businesses.

30 Sec. 5. NEW SECTION. 28.174 LOCAL SEED CAPITAL POOL --  
31 REQUIREMENTS FOR CERTIFICATION.

32 1. A local seed capital pool must be certified by the Iowa  
33 department of economic development in order to qualify for the  
34 tax credit provisions of section 422.11C and section 422.33,  
35 subsection 5A.

- 1        2. The application for certification shall contain, as a  
2 minimum, the following information:
- 3        a. The name of the applicant applying for the certificate.  
4        b. The address of the applicant's principal office in the  
5 state.  
6        c. The names and addresses of the applicant's directors,  
7 officers, general partners, or managing partners.  
8        d. A certified copy of the certificate or articles of  
9 incorporation, or a certified copy of the certificate of  
10 formation of a partnership.  
11       e. Documentation that the private capitalization of the  
12 pool is not less than two hundred thousand dollars.  
13       f. The level of capitalization that the company expects  
14 will qualify for a tax credit under section 422.11C or section  
15 422.33, subsection 6A.  
16       g. The source of money necessary to administer and operate  
17 the local seed capital pool.

18       Sec. 6. NEW SECTION. 28.175 LOCAL SEED CAPITAL POOL --  
19 INVESTMENT REQUIREMENTS.

- 20       1. A certified local seed capital pool shall provide  
21 funding for Iowa businesses as defined in section 28.172 and  
22 shall not provide funding for other businesses.  
23       2. Public funds may be invested in a certified local seed  
24 capital pool. However, a private investment of not less than  
25 two dollars in the pool shall be made for each one dollar of  
26 public investment in the fund.

27       Sec. 7. NEW SECTION. 28.176 ANNUAL REVIEW.

- 28       1. The department shall review on an annual basis a local  
29 seed capital pool for compliance with the provisions of this  
30 chapter and rules adopted to implement this division.  
31       2. Each local seed capital pool shall provide the  
32 following information at the time of the annual review:  
33       a. The name, address, and taxpayer identification number  
34 of each taxpayer who has invested in the pool and the amount  
35 of the investment of each taxpayer.

1 b. The name and location of each business in which the  
2 pool has invested and the amount and the use of the  
3 investment.

4 c. An estimate of the number of new jobs created or jobs  
5 retained in each business.

6 Sec. 8. NEW SECTION. 422.11C LOCAL SEED CAPITAL POOL TAX  
7 CREDIT.

8 The taxes imposed under this division, less credits allowed  
9 under sections 422.10, 422.11A, 422.11B, and 422.12, shall be  
10 reduced by a local seed capital pool tax credit. A taxpayer  
11 who makes a cash investment in a certified local seed capital  
12 pool, as defined in section 28.172, is entitled to a local  
13 seed capital pool tax credit equal to twenty-five percent of  
14 the taxpayer's cash investment in the local seed capital pool  
15 in the tax year the investment is made. An individual may  
16 claim the local seed capital pool tax credit allowed a  
17 partnership, subchapter S corporation, or estate or trust  
18 electing to have the income taxed directly to the individual.  
19 The amount claimed by the individual shall be based upon the  
20 pro rata share of the individual's earnings of the  
21 partnership, subchapter S corporation, or estate or trust.  
22 Any credit in excess of the tax liability for the tax year may  
23 be credited to the tax liability in subsequent years until  
24 depleted.

25 Sec. 9. Section 422.33, Code Supplement 1989, is amended  
26 by adding the following new subsection:

27 NEW SUBSECTION. 6A. The taxes imposed under this division  
28 shall be reduced by a local seed capital pool tax credit. A  
29 taxpayer who makes a cash investment in a certified local seed  
30 capital pool as defined in section 28.172, is entitled to a  
31 local seed capital pool tax credit equal to twenty-five  
32 percent of the taxpayer's cash investment in the local seed  
33 capital pool in the tax year the investment is made. Any  
34 credit in excess of the tax liability for the tax year may be  
35 credited to the tax liability in subsequent years until

1 depleted.

2 Sec. 10.

3 Sections 8 and 9 of this Act apply retroactively for tax  
4 years beginning on or after January 1, 1990.

5 EXPLANATION

6 The bill establishes a program for the certification of  
7 Iowa local seed capital pools. The purpose of the local seed  
8 capital pool is to assist in the formation of seed capital  
9 funds for investment in Iowa businesses. When a local seed  
10 capital pool is certified by the department of economic  
11 development, investments in the pool qualify for certain tax  
12 credits. A pool must be reviewed on an annual basis to remain  
13 certified. The bill requires a certified local seed capital  
14 pool to provide funding only for Iowa businesses. Public  
15 funds may be invested in a local seed capital pool but a two  
16 dollar private investment must be made for each dollar of  
17 public investment in the fund.

18 The bill provides for a local seed capital pool income tax  
19 credit. A taxpayer who makes a cash investment in a certified  
20 local seed capital pool is entitled to a local seed capital  
21 pool tax credit equal to 25 percent of the taxpayer's cash  
22 investment in the local seed capital pool in the tax year the  
23 investment is made. Any credit in excess of the tax liability  
24 for the tax year may be credited to the tax liability in  
25 following years until depleted. The tax credit is applicable  
26 retroactively for tax years beginning on or after January 1,  
27 1990.

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**SENATE FILE 2384  
FISCAL NOTE**

A fiscal note for Senate File 2384 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 2384 establishes a Program to certify Iowa local seed capital pools to assist in the formation of seed capital funds for investment in Iowa businesses. After the Department of Economic Development has certified a local seed capital pool, it will become eligible for certain tax credits. The seed capital pools must be certified on an annual basis. Public funds may be invested in a local seed capital pool but a two dollar private investment must be made for each dollar of public investment in the fund.

A taxpayer who makes an investment in such a capital pool will be entitled to 25 percent of the taxpayer's cash investment. The tax credit is applicable retroactively for tax years beginning on or after January 1, 1990.

<u>ASSUMPTIONS:</u>	FY 1991	FY 1992
Number of FTE positions needed.	0.5	1.00
Number of local seed capital pools established.	5	10
Average capitalization of each pool.	\$ 450,000	\$ 450,000
Total amount of capital pools.	\$2,250,000	\$4,500,000
Total amount of 50 private local investments.	\$1,500,000	\$3,000,000
Total tax credits.	\$ 375,000	\$ 750,000
Carry over reduction (1/3).	\$- 125,000	\$- 250,000
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Total tax credits.	\$ 250,000	\$ 500,000
Previous year carry over.		\$+ 125,000
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Total carry over reduction (1/3).		\$ 625,000

No new businesses or jobs occur as a result on this program in FY 1991.

New businesses and jobs may result in FY 1992 but the revenue from this economic activity would not result until FY 1993.

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FISCAL IMPACT:

Expenditure:	FY 1991	FY 1992
Salaries & Support	\$ 30,000	\$ 60,000
Tax Credit Loss to General Fund	250,000	625,000
Total	----- \$280,000	----- \$685,000

(LSB 788) SVD Department of Economic Development

FILED FEBRUARY 27, 1990

BY DENNIS PROUTY, FISCAL DIRECTOR