**Regulatory Analysis**

Notice of Intended Action to be published: 261—Chapter 114
"Seed Investor Tax Credit Program"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 15.106A; and 15E, subchapter IV, as enacted by 2025 Iowa Acts, Senate File 657

State or federal law(s) implemented by the rulemaking: Iowa Code chapter 15E, subchapter IV, as enacted by 2025 Iowa Acts, Senate File 657

*Public Hearing*

A public hearing at which persons may present their views orally or in writing will be held as follows:

| | |
|---|---|
| September 23, 2025 | 1963 Bell Avenue |
| 9:15 to 9:30 a.m. | Des Moines, Iowa |

*Public Comment*

Any interested person may submit written comments concerning this Regulatory Analysis, which must be received by the Economic Development Authority no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Lisa Connell
Iowa Economic Development Authority
1963 Bell Avenue, Suite 200
Des Moines, Iowa 50315
Email: lisa.connell@iowaeda.com

*Purpose and Summary*

The Authority proposes to adopt a new Chapter 114. The proposed chapter describes the policies and procedures applicable to the Seed Investor Tax Credit program, available pursuant to Iowa Code chapter 15E, subchapter IV, as enacted by 2025 Iowa Acts, Senate File 657. The program is designed to encourage early-stage investments in innovative Iowa businesses in key growth sectors, including advanced manufacturing, bioscience, finance and insurance, and technology.

*Analysis of Impact*

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

Qualifying businesses interested in applying for or that are certified through the program will bear the costs of the rulemaking. Investors interested in applying for or receiving tax credits will also bear the costs of the rulemaking.

- **Classes of persons that will benefit from the proposed rulemaking:**

Qualifying businesses interested in applying for or that are certified through the program will benefit from the rulemaking. Investors interested in applying for or receiving tax credits will benefit from the rulemaking.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

Qualifying businesses interested in applying for certification may require staff time to complete an application. Certified businesses may similarly incur costs to comply with reporting and monitoring requirements of the program. Some businesses may choose to rely on an external service provider to complete these tasks. The amount of the costs will vary depending on the compensation of staff or service providers involved. Investors that are eligible for a tax credit must also submit information to the Authority to receive the tax credit.

- **Qualitative description of impact:**

The program is designed to encourage early-stage investments in innovative Iowa businesses.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

Authority staff time is required to review and approve applications, issue tax credit certificates, review reports, and communicate with program applicants and recipients.

- **Anticipated effect on State revenues:**

The rules have no anticipated impact on State revenues. Up to $10 million total in tax credits may be authorized by the Authority for this program and innovation fund investment tax credits available pursuant to Iowa Code section 15E.52.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Only the entities and individuals that will potentially benefit from the program bear the costs of the rulemaking. The costs to the State to administer the program are proportional to the activities supported.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

The Authority has not identified any less costly methods or less intrusive methods for administering the program.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Authority did not consider any other methods.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

The Authority did not consider any other methods.

*Small Business Impact*

**If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:**

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

**If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?**

The rulemaking impacts only small businesses seeking certification as a qualifying business or tax credits. The rules regarding compliance and reporting requirements are no more stringent than

necessary to implement the purposes of the program. The rules do not establish schedules or deadlines. The rules do not establish design or operational standards.

*Text of Proposed Rulemaking*

ITEM 1. Adopt the following **new** 261—Chapter 114:

CHAPTER 114
SEED INVESTOR TAX CREDIT PROGRAM

**261—114.1(15E) Definitions.** For purposes of this chapter, unless the context otherwise requires:

*"Affiliate"* means the same as defined in Iowa Code section 15E.26 as enacted by 2025 Iowa Acts, Senate File 657.

*"Authority"* means the economic development authority created in Iowa Code section 15.105.

*"Board"* means the members of the economic development authority appointed by the governor and in whom the powers of the authority are vested pursuant to Iowa Code section 15.105.

*"Controlling equity interest"* means ownership of more than 50 percent of the outstanding equity interests of a corporation, partnership, limited liability company, or trust.

*"Convertible debt"* means debt that may be converted to equity at the option of the debt holder but has not yet been converted.

*"Director"* means the director of the authority.

*"Eligible investor"* means an investor making an investment that is eligible for a tax credit pursuant to this chapter and Iowa Code chapter 15E, subchapter IV, as enacted by 2025 Iowa Acts, Senate File 657.

*"Equity"* means common or preferred corporate stock or warrants to acquire such stock, membership interests in limited liability companies, or partnership interests in partnerships. Equity shall be limited to securities or interests acquired only for cash and shall not include securities or interests acquired at any time for services, contributions of property other than cash, convertible debt, or any other noncash consideration.

*"Full-time equivalent employee"* means a non-part-time position for the number of hours or days per week considered to be full-time work for the kind of service or work performed for an employer. Typically, a full-time equivalent position requires 2,080 hours of work in a calendar year, including all paid holidays, vacations, sick time, and other paid leave.

*"Investment"* means the same as defined in Iowa Code section 15E.26 as enacted by 2025 Iowa Acts, Senate File 657.

*"Investor"* means the same as defined in Iowa Code section 15E.26 as enacted by 2025 Iowa Acts, Senate File 657.

*"Management control"* means holding more than 50 percent of the voting power on any board of directors or trustees, any management committee, or any other group managing a corporation, partnership, limited liability company, or trust.

*"Person"* means an individual, corporation, limited liability company, business trust, estate, trust, partnership or association, or any other legal entity.

*"Principal"* means any current or prospective officer, director, or owner.

*"Program"* means the seed investor tax credit program administered pursuant to this chapter and Iowa Code chapter 15E, subchapter IV, as enacted by 2025 Iowa Acts, Senate File 657.

*"Qualifying business"* means the same as defined in Iowa Code section 15E.26 as enacted by 2025 Iowa Acts, Senate File 657.

*"Rural area"* means the same as defined in Iowa Code section 15E.26 as enacted by 2025 Iowa Acts, Senate File 657.

*"Urban area"* means the same as defined in Iowa Code section 15E.26 as enacted by 2025 Iowa Acts, Senate File 657.

**261—114.2(15E) Certification of qualifying businesses.**

**114.2(1)** *Eligibility for certification as a qualifying business.* A business shall meet all of the criteria in Iowa Code section 15E.28 as enacted by 2025 Iowa Acts, Senate File 657, to be eligible for certification as a qualifying business.

**114.2(2)** *Length of business operations.* For the purposes of determining whether a business has been in operation for five years or less as required by Iowa Code section 15E.28(2)*"b"* as enacted by 2025 Iowa Acts, Senate File 657, the authority will consider the following factors:

*a.* The date of incorporation or organization;

*b.* The date on which the business began the sale of goods or services;

*c.* The date on which the business first hired employees;

*d.* The date of execution of business contracts; and

*e.* Any other information that indicates the date on which the business began materially engaging in commercial activity.

**114.2(3)** *Application for certification.* A qualifying business shall apply to the authority for certification as a qualifying business as prescribed by the authority. The application for certification will include the following information:

*a.* A description of the general nature of the business's operations.

*b.* The location of the principal business operations, any other business locations, and the number of employees at each of the business's locations.

*c.* The date on which the business was formed and the date on which the business commenced operations based on the factors identified in subrule 114.2(2).

*d.* Verification that the business has at least one full-time equivalent employee.

*e.* Evidence that the business's primary operations are in a qualifying industry pursuant to Iowa Code section 15E.28(2)*"d"* as enacted by 2025 Iowa Acts, Senate File 657. Such evidence may include but is not limited to whether the business has a North American industry classification system (NAICS) number aligned with the relevant industries as determined by the authority. Businesses with other NAICS numbers will be required to document to the authority's satisfaction that the business is primarily engaged in an applicable industry identified in Iowa Code section 15E.28(2)*"d"* as enacted by 2025 Iowa Acts, Senate File 657, based on factors including but not limited to sources of revenue and customer base. For the purposes of determining whether the business is primarily engaged in the provision of services that require a professional license, "services requiring a professional license" includes but is not limited to the professions listed in Iowa Code section 496C.2.

*f.* Documentation of the ownership, affiliates, and principals of the business sufficient to demonstrate the business is an independent organization that is not part of, or an affiliate of, a business that is not a qualifying business and to demonstrate that the business has at least two investors for the purposes of establishing its eligibility pursuant to Iowa Code section 15E.28(2)*"h"*(2) as enacted by 2025 Iowa Acts, Senate File 657.

*g.* A description of the manner in which the business satisfies the business experience requirements set forth in Iowa Code section 15E.28(2)*"f"* as enacted by 2025 Iowa Acts, Senate File 657.

*h.* A balance sheet that reflects the qualifying business's assets, liabilities, and owner's equity as of the close of the most recent month or quarter.

*i.* The names, addresses, shares or equity interests issued, consideration paid for the shares or equity interests, and amounts of any tax credits of all shareholders or equity holders and the date on which the investment was made as well as documentation of any binding investment commitments made prior to application for certification. An agreement for convertible debt may be considered a binding investment commitment for the purposes of this paragraph.

*j.* A signed statement from an officer, director, manager, member, or general partner of the qualifying business certifying the accuracy of the information provided.

*k.* Any other information the authority may reasonably require to determine the business's eligibility for certification as a qualifying business and its investors' eligibility to receive tax credits.

**114.2(4)** *Authority review and notice of certification.*

*a.* Upon the authority's receipt of the information and documentation necessary to demonstrate satisfaction of the criteria set forth in Iowa Code section 15E.28 as enacted by 2025 Iowa Acts, Senate File 657, the authority shall, within a reasonable period of time, determine whether a business shall be certified as a qualifying business and, if applicable, issue written notification to the qualifying business that such business has been certified with the authority for the purpose of issuing investment tax credits. The authority will indicate in its written notice the first date investments are eligible for a tax credit based on the date of application for certification and the date the authority expects the certification to expire based on the date the business began operations.

*b.* Prior to issuance of the written notification pursuant to paragraph 114.2(4)*"a,"* a qualifying business shall pay a nonrefundable application fee of $200 to the authority.

*c.* Following written notification of certification, a certified qualifying business shall enter into an agreement with the authority reflecting the terms of certification.

**114.2(5)** *Revocation and expiration of certification.*

*a.* A certified qualifying business shall provide any information the authority may reasonably request to confirm the business's continued eligibility for certification as a qualifying business and the eligibility of its investors to receive tax credits.

*b.* If a qualifying business fails to meet or maintain any requirement set forth in this chapter and in Iowa Code chapter 15E, subchapter IV, as enacted by 2025 Iowa Acts, Senate File 657, the authority shall revoke the business's certification as a qualifying business by issuing written notice of revocation to the business. The notice will identify the last date on which the business was eligible to be certified as a qualifying business. Investments made after the identified date will not be eligible for a tax credit.

*c.* If a business continues to satisfy all eligibility requirements until it has been in operation for more than five years, the business's certification will expire on the date identified as the expected date of expiration pursuant to paragraph 114.2(4)*"a."* Investments made after the identified date will not be eligible for a tax credit.

*d.* The authority shall rescind any tax credit certificates issued to taxpayers for investments made after the date as of which the business's certification was revoked or expired and shall notify the department of revenue that it has done so. A tax credit certificate that has been rescinded by the authority shall be null and void, and the department of revenue will not accept the tax credit certificate.

**114.2(6)** *Reporting.*

*a.* A certified qualifying business shall report new equity interests or transfers in equity among current equity holders or as any other information on the list of investors provided to the authority as part of the application for certification may change.

*b.* The authority may at any time request additional information and documentation from a qualifying business regarding the operations, job creation, and economic impact of such qualifying business, and the authority may use such information in preparing and publishing any reports to be provided to the governor and the general assembly to the extent such information is not confidential pursuant to Iowa Code section 15E.29 as enacted by 2025 Iowa Acts, Senate File 657.

**261—114.3(15E) Investment and investor requirements.**

**114.3(1)** Only investments made after the date a qualifying business submits an application for certification shall qualify for a tax credit.

**114.3(2)** A qualifying business must submit documentation of an investment to the authority, consistent with paragraph 114.4(1)*"b,"* during the first available application window following the investment for the investment to qualify for a tax credit. If the first available application window following the investment concludes prior to approval of certification of the applicable qualifying business, the investor may apply in the first available application window following approval of certification.

**114.3(3)** Convertible debt shall only be considered an investment in the form of cash to purchase equity as of the date of conversion. Investors that utilize convertible debt must document the date and terms of conversion to equity to be eligible for a tax credit.

**114.3(4)** Pursuant to the requirements and definitions in Iowa Code chapter 15E, subchapter IV, as enacted by 2025 Iowa Acts, Senate File 657, the authority will also verify the following to determine the eligibility of an investment for a tax credit:

*a.* The amount of the investment is at least $10,000.

*b.* The investment is not made by an affiliate of the qualifying business or its principals.

*c.* The investment is not made by an individual or entity that owns 70 percent or more of the qualifying business.

**261—114.4(15E) Applying for an investment tax credit.**

**114.4(1)** *Annual business application.* The annual application submitted by qualifying businesses will include:

*a.* A report from the business of any changes to the information provided in the application for certification pursuant to subrule 114.2(3).

*b.* The names, addresses, email addresses, phone numbers, shares or equity interests issued, and consideration paid for the shares or equity interests of all shareholders or equity holders, including but not limited to investors who may qualify for the tax credits and the date on which all investments were made.

*c.* Documentation of the ownership, affiliates, and principals of the qualifying business and of its investors sufficient to allow the authority to determine the following:

(1) Whether any investors are ineligible for a tax credit because the investor is an affiliate of the qualifying business or its principals.

(2) Whether any investors are ineligible for a tax credit because the individual or entity owns 70 percent or more of the qualifying business.

(3) Whether tax credits issued to an investor and the investor's spouse or dependent would exceed the maximum allowed pursuant to Iowa Code section 15E.27(2)*"b"*(1) as enacted by 2025 Iowa Acts, Senate File 657.

*d.* A signed statement from an officer, director, manager, member, or general partner of the qualifying business certifying the accuracy of the information provided.

*e.* Any other information the authority may reasonably require to determine the business's continued eligibility for certification as a qualifying business and its investors' eligibility to receive tax credits.

**114.4(2)** *Application window.* For fiscal years beginning on or after July 1, 2026, the annual application required pursuant to Iowa Code section 15E.28(5) as enacted by 2025 Iowa Acts, Senate File 657, shall be submitted electronically to the authority from July 1 to August 31 each year. For the fiscal year beginning July 1, 2025, the authority will accept applications as soon as practicable after [effective date of this rulemaking] for a period not to exceed 60 days. The authority may adjust the annual application period dates under extenuating circumstances and will provide notice of adjustments on the authority's website. The authority may cease accepting applications during any annual application period if the requested tax credits for the program and the requested tax credits for innovation fund investment tax credits available pursuant to Iowa Code section 15E.52 as amended by 2025 Iowa Acts, Senate File 657, exceed $12 million. Applications shall be date- and time-stamped by the authority in the order in which such applications are received.

**114.4(3)** *Board approval of maximum tax credits.* Following the end of each annual application period, the board will determine the total amount of tax credits available pursuant to Iowa Code section 15.119 as amended by 2025 Iowa Acts, Senate File 657. After the board's determination of the total amount of tax credits available, the authority will make its initial allocation of tax credits to eligible investors based on the order in which applications are received.

**114.4(4)** *Investor information and deadline.* Additional information that may be requested from investors identified by a qualifying business includes proof of investment and the investor's tax identification number. An eligible investor must provide any information requested by the authority to verify the eligibility of the investor and to allow the authority to issue a tax credit certificate. Such information shall be provided within 30 days of a request from the authority unless a request for extension is approved by the authority in writing.

**114.4(5)** *Tax credit approval.* Authority staff will verify the continued eligibility of qualifying businesses and the eligibility of investments prior to approval of tax credits by the director. Tax credits will be approved by the director on a first-come, first-served basis until the maximum amount of tax credits approved by the board is fully utilized. Applications that exceed the maximum amount of tax credits approved by the board will be denied.

**114.4(6)** *Tax credit amount.* The location of the principal business operations will be utilized to determine whether a qualifying business is located in a rural area or an urban area for the purposes of establishing the amount of a tax credit pursuant to Iowa Code section 15E.27(2)*"a"* as enacted by 2025 Iowa Acts, Senate File 657.

**114.4(7)** *Tax credit limitations.* Tax credits are limited by the following:

*a.* The total amount of tax credits available for the program, approved by the board pursuant to Iowa Code section 15.119 as amended by 2025 Iowa Acts, Senate File 657.

*b.* The maximums allowed per fiscal year for a natural person, corporation, or other entity pursuant to Iowa Code section 15E.27(2) as enacted by 2025 Iowa Acts, Senate File 657.

*c.* The maximum allowed per fiscal year for any one qualifying business pursuant to Iowa Code section 15E.27(2) as enacted by 2025 Iowa Acts, Senate File 657.

**114.4(8)** *Denial of applications.* Applications received by the authority that exceed the limitations described in Iowa Code sections 15.119 as amended and 15E.27 as enacted by 2025 Iowa Acts, Senate File 657, and in subrule 114.4(7) will be denied, regardless of whether the investment was otherwise eligible to receive a tax credit award. Any application that can be partially approved without exceeding the applicable maximum amounts will be approved as to the portion less than the maximum amounts and denied as to the portion greater than the maximum amounts. For example, if an application is eligible for $50,000 of tax credits, but there is only $30,000 of the business maximum amount available, the application will be approved for $30,000 and denied for $20,000.

**261—114.5(15E) Tax credit certificates.**

**114.5(1)** *Issuance by the authority.* The authority shall issue tax credit certificates to investors pursuant to Iowa Code section 15E.28 as enacted by 2025 Iowa Acts, Senate File 657, provided, however, that such tax credit certificate shall be subject to rescission pursuant to paragraph 114.2(5)*"d."*

**114.5(2)** *Vested right.* A taxpayer does not obtain a vested right in a tax credit until a certificate has been issued by the authority.

**114.5(3)** *Claiming an investment tax credit.* An investor that has been issued a tax credit certificate by the authority may claim the credit in accordance with any applicable rules adopted by the department of revenue.

These rules are intended to implement Iowa Code chapter 15E, subchapter IV, as enacted by 2025 Iowa Acts, Senate File 657.