Regulatory Analysis

Notice of Intended Action to be published: 261—Chapter 116
"Tax Credits for Investments in Certified Innovation Funds"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 15.106A; and 15E.52 as amended by 2025 Iowa Acts, Senate File 657

State or federal law(s) implemented by the rulemaking: Iowa Code section 15E.52 as amended 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:

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Iowa Economic Development Authority
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Des Moines, Iowa 50315
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Purpose and Summary

Pursuant to Executive Order 10, the Authority proposes to rescind Chapter 116 and adopt a new chapter in lieu thereof. The proposed chapter describes the policies and procedures applicable to tax credits for investments in certified innovation funds, available pursuant to Iowa Code section 15E.52 as amended by 2025 Iowa Acts, Senate File 657. The program stimulates venture capital investment in innovative Iowa businesses.

The proposed chapter is clearer and more concise throughout and omits language that duplicates statute. Additionally, the proposed chapter incorporates changes to the program and its available allocation of tax credits in 2025 Iowa Acts, Senate File 657.

Analysis of Impact

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

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

Innovation funds 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:**

Innovation funds 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:**

Innovation funds interested in applying for certification may require staff time to complete an application. Certified funds may similarly incur costs to comply with reporting and monitoring requirements of the program. Some innovation funds 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 an application for the tax credit.

- **Qualitative description of impact:**

The program stimulates venture capital investment 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 the Seed Investor Tax Credit program created pursuant to 2025 Iowa Acts, Senate File 657.

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 an innovation fund 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. Rescind 261—Chapter 116 and adopt the following **new** chapter in lieu thereof:

CHAPTER 116
TAX CREDITS FOR INVESTMENTS IN CERTIFIED INNOVATION FUNDS

261—116.1(15E) Definitions. For purposes of this chapter, unless the context otherwise requires:

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

"Board" means the same as defined in Iowa Code section 15.102.

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

"Equity" means common or preferred corporate stock or warrants to acquire such stock, membership interests in limited liability companies, partnership interests in partnerships, or near equity. 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, or any other non-cash consideration.

"Innovation fund" means the same as defined in Iowa Code section 15E.52 as amended by 2025 Iowa Acts, Senate File 657.

"Innovative business" means the same as defined in Iowa Code section 15E.52 as amended by 2025 Iowa Acts, Senate File 657.

"Investor" means a taxpayer that makes an investment in an innovation fund.

"Program" means the tax credit program for investments in certified innovation funds available pursuant to this chapter and Iowa Code section 15E.52 as amended by 2025 Iowa Acts, Senate File 657.

261—116.2(15E) Certification of innovation funds.

116.2(1) An innovation fund shall provide to the authority information as a prerequisite to the issuance of any investment tax credits to investors in such innovation funds. The innovation fund must provide this information within 120 days from the first date on which the equity investments qualifying for the investment tax credit have been made.

116.2(2) Application forms setting forth the information required to certify the eligibility of an innovation fund may be obtained by contacting the authority.

116.2(3) The authority will not issue a tax credit certificate until the board has certified that a fund meets all of the following criteria:

a. The innovation fund has submitted a copy of the innovation fund's certificate of limited partnership, limited partnership agreement, articles of organization or operating agreement certified by the chief executive officer of the innovation fund.

b. The innovation fund has submitted a signed statement from an officer, director, manager, member or general partner of the fund stating that the criteria established in Iowa Code section 15E.52 as amended by 2025 Iowa Acts, Senate File 657, are met.

(1) For the purposes of determining whether an innovation fund will make investments in promising early-stage companies that have a principal place of business in the state, "having a principal place of business in the state" means (1) that the business has at least 50 percent of all of its employees in the state, (2) that the business pays at least 50 percent of the business's total payroll to

employees residing in the state, or (3) that the headquarters of the business (defined as the home office for a substantial amount of executive employees) is in the state.

(2) To establish that the criterion in Iowa Code section 15E.52(7)*"d"* is met, the innovation fund shall provide a detailed description of the framework the innovation fund will use to evaluate a business's growth potential and its ability to produce commercially viable products or services within a reasonable period of time. The description shall list and discuss the criteria and the attendant process that the innovation fund will use to evaluate businesses. The authority will consider requests submitted under Iowa Code section 15.118 or 22.7 to treat the evaluation framework as confidential.

(3) To establish that the criterion in Iowa Code section 15E.52(7)*"e"* is met, an innovation fund shall provide a detailed description of the methods by which each business will be evaluated. An innovation fund shall also submit a plan describing the actions it will take in order to collaborate and coordinate with other state and local entities and the ways in which the innovation fund intends to ensure consistency with the policy goals of this chapter. Such a plan shall propose to create relationships that can be substantiated in writing, which may include without limitation contracts, memoranda of understanding, letters of support, affidavits, or joint press releases from or with the entities that will be involved in the collaborative and coordinating efforts or through a list and summary description of the dates and locations for meetings held between the innovation fund and the other entities that allowed for collaboration and coordination between the innovation fund and those entities in an effort to achieve policy consistency.

(4) To establish that the criterion in Iowa Code section 15E.52(7)*"f"* is met, an innovation fund shall provide written confirmation of such relationships, which may include without limitation contracts, memoranda of understanding, letters of support, affidavits, or joint press releases from or with the regents institutions of this state or a list and summary description of the dates and locations for meetings held between the innovation fund and the regents institutions, the names of representatives of regents institutions with whom the innovation fund has met, and a brief summary of the discussions at those meetings.

(5) To establish that the criterion in Iowa Code section 15E.52(7)*"g"* as amended by 2025 Iowa Acts, Senate File 657, is met, an innovation fund shall include provisions in the fund's governing documents that provide for the continued operations of the fund only if the minimum level of investment commitment is reached.

116.2(4) Upon the authority's receipt of the information and documentation necessary to demonstrate satisfaction of the criteria set forth in Iowa Code section 15E.52 as amended by 2025 Iowa Acts, Senate File 657, and herein, the authority shall, within a reasonable period of time, determine whether to certify the innovation fund. The authority shall issue written notification to the innovation fund that the fund has been certified for the purpose of issuing investment tax credits. This written notification shall contain the following statement:

> The Authority shall not be liable either for an innovation fund's failure to maintain compliance with the certification requirements nor for an investor's loss of tax credit certificates resulting from either a failure to maintain compliance or from a revocation.

116.2(5) An innovation fund certified before July 1, 2025, that wishes to take advantage of the changes in 2025 Iowa Acts, Senate File 657, must submit an amended application to the board and demonstrate that the innovation fund meets all new requirements for certification.

261—116.3(15E) Maintenance, reporting, and revocation of certification.

116.3(1) In order to maintain certification, an innovation fund must demonstrate compliance with the eligibility criteria set forth in Iowa Code section 15E.52 as amended by 2025 Iowa Acts, Senate File 657, at all times during participation in the program. A failure to comply with the eligibility criteria on an ongoing basis may result in revocation of certification. The authority will notify an innovation fund if the authority finds that the fund is not in compliance and will allow the innovation fund a period of not more than 120 days in which to address such noncompliance. If after

120 days the innovation fund remains in noncompliance, the board may revoke the fund's certification. The authority will not issue tax credit certificates to investors in an innovation fund if such equity investments are made at any point after the innovation fund has been found to be in noncompliance or if the innovation fund's certification has been revoked.

116.3(2) On or before December 31 of each year, each certified innovation fund shall collect and provide to the board, in the manner and form prescribed by the authority, the following information:

a. The amount of equity investments made in the innovation fund, both on an annual and a cumulative basis.

b. The information required in Iowa Code section 15E.52(10)*"e."*

c. In order to establish that an innovation fund has met the criterion found in Iowa Code section 15E.52(7)*"e,"* documentation and information in the manner and form required by the authority. Such documentation and information may include without limitation contracts, memoranda of understanding, letters of support, affidavits, joint press releases, or a list and summary description of the dates and locations for meetings held between the innovation fund and the other entities that allowed for collaboration and coordination between the innovation fund and those entities in an effort to achieve policy consistency.

d. In order to establish that an innovation fund has met the criterion found in Iowa Code section 15E.52(7)*"f,"* documentation and information in the manner and form required by the authority. Such documentation and information may include without limitation contracts, memoranda of understanding, letters of support, affidavits, joint press releases, or a list and summary description of the dates and locations for meetings held between the innovation fund and regents institutions, the names of representatives of regents institutions with whom the innovation fund has met, and a brief summary of the discussions at those meetings. The innovation fund shall also indicate if any business in which it has invested is commercializing research developed at one of the regents institutions.

e. Additional information and documentation, which the authority may at any time request from an innovation fund, regarding the operations, job creation and economic impact of the fund. The authority may use such information in preparing and publishing any reports to be provided to the governor and the general assembly.

116.3(3) Upon obtaining the required minimum threshold of $3 million in binding investment commitments, an innovation fund shall submit a statement containing the names, addresses, equity interests issued and consideration paid for the interests of all investors who may initially qualify for the tax credits. An innovation fund shall submit an amended statement as may be necessary from time to time to reflect new equity interests or transfers in equity among current equity holders or as any other information on the list may change. The authority will consider requests submitted under Iowa Code section 15.118 to treat investor names and amounts as confidential.

116.3(4) The board may revoke an innovation fund's certification if any of the following events occur:

a. An innovation fund fails to secure the required $3 million in initial binding investment commitments within one year of the date of certification by the board or fails at any point thereafter to secure investment from its investors of at least $3 million. If an investor in an innovation fund fails to make a capital call by the innovation fund and that failure would cause the innovation fund to fail to secure the required minimum $3 million in investment, then the authority will provide the innovation fund a period of not more than 120 days after receiving notice of the failed capital call to secure additional investment commitments sufficient to meet the required minimum investment.

b. An innovation fund fails to timely submit the report required in Iowa Code section 15E.52(9).

c. An innovation fund fails to maintain the eligibility criteria as set forth in Iowa Code section 15E.52 as amended by 2025 Iowa Acts, Senate File 657.

The board may forbear revocation under this subrule for good cause shown or for demonstration of extenuating circumstances. Such forbearance shall be at the board's discretion and for the period of time determined by the board to be in the best interest of the program and the state of Iowa.

116.3(5) If the board finds that a fund is in noncompliance or revokes an innovation fund's certification, the board will not issue tax credit certificates to investors in the innovation fund until the innovation fund manager demonstrates to the board that the innovation fund again meets the eligibility criteria set forth in Iowa Code section 15E.52 as amended by 2025 Iowa Acts, Senate File 657. If an investor makes an equity investment prior to a notice of noncompliance and a revocation of an innovation fund's certification, the board will issue the tax credit certificate as set forth in rule 261—116.6(15E). If an investor is issued a tax credit certificate prior to a revocation of certification, the investor shall have all of the rights described in Iowa Code section 15E.52(5) as amended by 2025 Iowa Acts, Senate File 657.

261—116.4(15E) Investment and investor requirements.

116.4(1) Investments made more than 120 days before an innovation fund applies for certification are not eligible for a tax credit.

116.4(2) For fiscal years beginning on or after July 1, 2026, an investor must apply for a tax credit 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 innovation fund, the investor may apply in the first available application window following approval of certification.

116.4(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.

261—116.5(15E) Application for the investment tax credit certificate.

116.5(1) *Investor application.* Investors may apply for an investment tax credit certificate for each equity investment made in a certified innovation fund by submitting an application to the authority for approval by the board and providing such other information and documentation as may be requested by the authority, including proof of investment.

116.5(2) *Application window.* For fiscal years beginning on or after July 1, 2026, applications shall be submitted electronically to the authority from July 1 to August 31 each year. 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 the seed investor tax credit program available pursuant to Iowa Code chapter 15E, subchapter IV, as enacted 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.

116.5(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 to allocate pursuant to Iowa Code section 15.119 as amended by 2025 Iowa Acts, Senate File 657.

116.5(4) *Recommendation and approval of tax credits.* Authority staff will make a recommendation to the board for approval of tax credits to eligible investors following such determination by the board. The board will approve tax credit certificates on a first-come, first-served basis until the maximum aggregate amount of credits authorized for issuance has been reached for any fiscal year.

261—116.6(15E) Tax credit certificates.

116.6(1) *Preparation of the certificate.* The tax credit certificate shall be in a form approved by the authority and shall contain the taxpayer's name, address, and tax identification number; the amount of credit; the name of the innovation fund; the year in which the investment was made; and any other information that may be required by the department of revenue.

116.6(2) *Vested right.* A taxpayer does not obtain a vested right in a tax credit until a certificate has been issued by the authority.

116.6(3) *Claiming and transferring tax credits.* To claim a tax credit under this chapter, a taxpayer must attach to that taxpayer's tax return a certificate issued pursuant to this chapter when the return is filed with the department of revenue. A tax credit may be claimed in the first year that a certificate is issued. Tax credits shall be claimed in accordance with any applicable rules adopted by the department of revenue. A tax credit may be transferred in accordance with Iowa Code section 15E.52 as amended by 2025 Iowa Acts, Senate File 657, and any applicable rules adopted by the department of revenue.

261—116.7(15E) Additional information. The authority may at any time request additional information and documentation from an innovation fund regarding the operations, job creation and economic impact of the fund, and the authority may use such information in preparing and publishing any reports to be provided to the governor and the general assembly.

These rules are intended to implement Iowa Code section 15E.52 as amended by 2025 Iowa Acts, Senate File 657.