

CHAPTER 56
EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) FORMATION ASSISTANCE

Chapter rescission date pursuant to Iowa Code section 17A.7: 2/25/31

261—56.1(85GA, HF648) Definitions. For purposes of this chapter, unless the context otherwise requires:

“*Agreement*” means a contract for financial assistance under the program describing the terms on which the financial assistance is to be provided.

“*Applicant*” means a business applying for assistance under the program.

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

“*Business*” means a corporation eligible to become a qualified Iowa ESOP.

“*Director*” means the director of the authority.

“*Financial assistance*” means a payment made by the authority to an applicant approved for funding under the program.

“*Program*” means the ESOP formation assistance program established pursuant to this chapter.

“*Qualified Iowa ESOP*” means an employee stock ownership plan, as defined in Section 4975(e)(7) of the Internal Revenue Code as in effect on February 25, 2026, and trust that are established by an Iowa corporation for the benefit of the employees of the corporation.

[ARC 9999C, IAB 1/21/26, effective 2/25/26]

261—56.2(85GA, HF648) Program eligibility, application, and funding decisions.

56.2(1) *Program eligibility.* To be eligible under the program, an applicant shall meet all of the following requirements:

- a. The business is interested in establishing an ESOP.
- b. The business is, or documents intent to become, an Internal Revenue Service (IRS) subchapter C or subchapter S corporation.
- c. The business has a valuation that is sufficient to make an ESOP feasible. A business with valuation less than \$5 million is generally not considered a feasible candidate for an ESOP.
- d. The business has a number of employees, eligible employee types, and a total payroll that are sufficient to make an ESOP feasible. A business with fewer than 25 full-time, permanent employees is generally not considered a feasible candidate for an ESOP.
- e. The applicant shall have a cash flow level sufficient to make an ESOP feasible. A business with cash flow less than \$500,000 is generally not considered a feasible candidate for an ESOP.
- f. The business is not a business engaged in the business of sale at retail of tangible personal property or taxable services in this state or online. “Sale at retail” means the same as defined in Iowa Code section 423.1(46). Any business obligated to collect sales or use tax under Iowa Code chapter 423 may be ineligible pursuant to this paragraph.
- g. The business is not a publicly traded company.
- h. The business has not completed a feasibility study for purposes of exploring formation of a qualified Iowa ESOP in the three years prior to application for the program.

56.2(2) *Application.* The authority will accept applications for the program on a rolling basis. Information on submitting an application is available on the authority’s website.

56.2(3) *Application scoring.* The authority may engage outside experts for assistance in evaluating the applications as needed. An applicant may be required to interview with authority staff or outside experts engaged by the authority. Authority staff will score applications based on the extent to which an applicant is a feasible candidate to form a qualified Iowa ESOP. The authority will keep records of the scoring process and make those records available to applicants.

56.2(4) *Funding decisions.* The director will make the final funding decision on each application, taking into consideration the score and the funding recommendation of authority staff. The director will not approve funding for an application that receives an average score of less than 50 points.

56.2(5) *Amount of assistance.* An applicant to the program may be approved for financial assistance in an amount equal to 50 percent of the cost incurred for obtaining a feasibility study conducted by an

independent financial professional. The total amount of financial assistance provided to an applicant will not exceed \$25,000.

[ARC 9999C, IAB 1/21/26, effective 2/25/26]

261—56.3(85GA, HF648) Contract and disbursement.

56.3(1) Each applicant that is approved for financial assistance under the program shall enter into an agreement with the authority to establish the terms on which the financial assistance is to be provided.

56.3(2) The authority may reimburse a business for up to 25 percent of the cost of a feasibility study upon completion of the feasibility study. The authority may reimburse a business for up to 25 percent of the cost of a feasibility study upon formation of a qualified Iowa ESOP. The business must document the costs incurred and completion of all necessary transactions to the satisfaction of the authority prior to disbursement. Costs incurred prior to approval of financial assistance will not be eligible for reimbursement.

[ARC 9999C, IAB 1/21/26, effective 2/25/26]

These rules are intended to implement 2013 Iowa Acts, House File 648, section 9.

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[Filed ARC 6891C (Notice ARC 6738C, IAB 12/14/22), IAB 2/22/23, effective 3/29/23]

[Filed ARC 9999C (Notice ARC 9544C, IAB 9/17/25), IAB 1/21/26, effective 2/25/26]