



[SF 408](#) – Economic Development Authority Policy Bill (LSB1164SV)
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Fiscal Note Version – New

Description

[Senate File 408](#) relates to various programs within the Iowa Economic Development Authority (IEDA). **Table 4** summarizes the Fiscal Impact of SF 408.

Division I — Tax Credit Programs

Description

Division I of the Bill amends the Innovation Fund Tax Credit (IFTC), Qualifying Business Tax Credit (QBTC), and Renewable Chemical Production Tax Credit programs. The Bill changes the annual cap on the allocation of tax credits from \$2.0 million for the QBTC program and \$8.0 million for the IFTC program to an aggregate annual cap of \$10.0 million for both programs.

The Bill removes serine, threonine, lysine, and nonfuel ethanol from the definition of “building block chemical” for the purpose of the Renewable Chemical Tax Credit Program. The Bill standardizes award amounts up to \$1.0 million per business for the Renewable Chemical Tax Credit Program. The Bill extends the future repeal date for the Program from July 1, 2030, to July 1, 2036, and extends the availability of the tax credit for any renewable chemical produced prior to the end of calendar year (CY) 2035, rather than the end of CY 2026.

The Bill includes a sunset extension, eliminates the waitlist, and adopts other changes for the three programs.

The Bill is effective July 1, 2023, for investment credit program applications submitted to the IEDA for investments in innovation funds or qualifying businesses.

Background

The IFTC allows equity investments to be made into a qualifying innovation fund, which is administered by the IEDA. A certified Innovation Fund makes investments in promising early-stage companies whose principal business operations are located in Iowa if those companies have a net worth that exceeds \$10.0 million and are engaged primarily in advanced manufacturing, biosciences, and information technology.

The IEDA is also responsible for the QBTC, which is focused on “[angel investors](#)” that make investments directly into start-up companies. Iowa Code section [15E.52](#) defines an “innovative business” as one that engages primarily in advanced manufacturing, biosciences, finance, insurance, and information technology. The Bill adds “educational technology” to this definition. Because demand exceeds the existing annual cap, the IEDA is not currently accepting applications for this tax credit, effective April 1, 2022. The IEDA has waitlisted applications that were received and have not yet been awarded because the cap was reached. The waitlist is projected to be fully awarded after July 1, 2025.

Assumptions

- Applications for the QBTC that are currently waitlisted will be awarded tax credit certifications in FY 2024, and no new applications for the QBTC will be accepted until the waitlist is cleared.
- Claims will be made over the projected years at the current claim rate.
- The IEDA will allocate all of the \$10.0 million in tax credits available for FY 2024 to FY 2028 in the proportions based on past award information.
- Claim rates of tax credits will be similar to historical claim rates for both credits.
- Estimated claims are based on the historical rate of claims in each program as determined in the Tax Credit Award, Claim, and Transfer Administration System (CACTAS).

Angel Investor (QBTC) Tax Credit Claim Rates		Innovation Fund Tax Credit Claim Rates	
Year 0	0.2%	Year 0	2.1%
Year 1	32.6%	Year 1	23.6%
Year 2	36.9%	Year 2	36.6%
Year 3	7.5%	Year 3	13.7%
Year 4	3.4%	Year 4	7.4%
Year 5	1.7%	Year 5	3.9%
Year 6	1.4%	Year 6	2.0%
Total	83.7%	Total	89.3%

- All current requirements regarding minimum and maximum investments per company or fund, and maximum claims per taxpayer, are assumed to remain in place and to be met by applicants under the Bill.
- The QBTC and IFTC tax credit claims are estimated to begin in FY 2025.

Fiscal Impact

Senate File 408 will increase investment tax credits awarded and claimed each year, thus decreasing revenues to the General Fund compared to current law. Table 2 shows the estimated tax credit awards for the investment credit programs from FY 2023 to FY 2028 and Table 3 shows the estimated tax credits claimed from FY 2023 to FY 2028.

The estimated fiscal impact for the Investment Tax Credits is shown below. The fiscal impact to the General Fund from the tax credits claimed begins in FY 2025 and is a decrease of \$1.0 million. The fiscal impact to the Local Surtax begins in FY 2026 and is a decrease of \$1.0 million.

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Total General Fund Impact	\$ 0.0	\$ -1.0	\$ -2.0	\$ -2.1	\$ -3.4
Local Surtax Impact	\$ 0.0	\$ 0.0	\$ -0.1	\$ -0.1	\$ -0.1

Changes made to the Renewable Chemical Tax Credit Program are not projected to impact the General Fund until FY 2030.

Table 2 — Estimated Tax Credit Awards by Fiscal Year (in Millions)						
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	
<u>Estimated Awards Under Current Law Only</u>						
Innovation Fund Tax Credit	\$ 5.0	\$ 5.3	\$ 5.5	\$ 3.2	\$ 2.9	
Qualifying Business Tax Credit	2.0	2.0	2.0	2.0	2.0	
Total	\$ 7.0	\$ 7.3	\$ 7.5	\$ 5.2	\$ 4.9	
<u>Estimated Awards After Bill is Enacted</u>						
Innovation Fund Tax Credit	\$ 5.0	\$ 5.3	\$ 6.0	\$ 5.3	\$ 5.3	
Qualifying Business Tax Credit	5.0	4.8	4.0	4.7	4.8	
	\$ 10.0	\$ 10.0	\$ 10.0	\$ 10.0	\$ 10.0	
<u>Increase Due to Bill</u>						
Innovation Fund Tax Credit	\$ 0.0	\$ 0.0	\$ 0.5	\$ 2.1	\$ 2.4	
Qualifying Business Tax Credit	3.0	2.8	2.0	2.7	2.8	
	\$ 3.0	\$ 2.8	\$ 2.5	\$ 4.8	\$ 5.2	

Table 3 — Estimated Tax Credit Claims by Fiscal Year (in Millions)						
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	
<u>Estimated Awards Under Current Law Only</u>						
Innovation Fund Tax Credit	\$ 4.5	\$ 4.8	\$ 4.7	\$ 4.3	\$ 2.7	
Qualifying Business Tax Credit	1.7	1.7	1.7	1.7	1.7	
	\$ 6.2	\$ 6.5	\$ 6.4	\$ 6.0	\$ 4.4	
<u>Estimated Awards After Bill is Enacted</u>						
Innovation Fund Tax Credit	\$ 4.5	\$ 4.8	\$ 4.7	\$ 4.5	\$ 4.2	
Qualifying Business Tax Credit	1.7	2.7	3.7	3.6	3.6	
	\$ 6.2	\$ 7.4	\$ 8.4	\$ 8.1	\$ 7.8	
<u>Increase Due to Bill</u>						
Innovation Fund Tax Credit	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.2	\$ 1.5	
Qualifying Business Tax Credit	0.0	1.0	2.0	1.9	1.9	
	\$ 0.0	\$ 1.0	\$ 2.0	\$ 2.1	\$ 3.4	

Division II — Iowa Wine and Beer Promotion Board

Description

Division II of [SF 408](#) broadens the membership of the Iowa Wine and Beer Promotion Board to include spirits. Correspondingly, the Board's membership is increased from three members to four, each representing one of the three entities of the Board (wine, beer, and spirits) with a single representative from the IEDA. Moneys appropriated to the Authority from the [Wine Gallonage Tax](#), [Barrel Tax Revenue](#), and [Beer and Liquor Control Fund](#), as well as moneys transferred to the Authority may be used by the Authority to promote Iowa wine, beer, and spirits, including administrative expenses incurred under the promotion.

The Bill transfers the lesser of \$250,000 or up to 1.0% of native distilled spirits revenue to the Board. The transfer from the Department of Commerce to the IEDA will be used to promote beer, wine, and spirits made in Iowa, as well as for administrative expenses related to the Board.

Assumptions

- Native distilled spirit sales are estimated to be between \$1.4 million and \$1.6 million annually.
- The predictions are based on historical sales data.

Fiscal Impact

Senate File 408 decreases revenue to the General Fund by approximately \$130,000 and \$160,000 per year beginning in FY 2024 and transfers the money to the IEDA to be used to support the Wine and Beer Promotion Board.

Summary of Fiscal Impact

Table 4 summarizes the projected fiscal impacts of SF 408.

Table 4 — Projected Fiscal Impacts of SF 408 (in Millions)						
<u>Division</u>	<u>General Fund Impact</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
I	Investment Tax Credit	\$ 0.0	\$ -1.0	\$ -2.0	\$ -2.1	\$ 3.4
II	Wine and Beer Promotion Board	-0.1	-0.1	-0.1	-0.1	-0.1
		\$ -0.1	\$ -1.1	\$ -2.1	\$ -2.2	\$ -3.5
<u>Division</u>	<u>Local Surtax Impact</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
I	Investment Tax Credit	\$ 0.0	\$ 0.0	\$ -0.1	\$ -0.1	\$ -0.1

Sources

Iowa Department of Revenue
 Iowa Economic Development Authority
 Alcoholic Beverages Division
 Tax Credit Award, Claim, and Transfer Administration System

/s/ Jennifer Acton

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.