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**HF 615** – Innovation Fund Tax Credits (LSB 2327HZ)  
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Fiscal Note Version – New

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**Description**

**House File 615** modifies the Innovation Fund Investment Tax Credit and also allows the Innovations Corporation to create an Innovations Fund to provide financial and management assistance for early-stage and seed capital investment entities.

This Bill requires annual allocations totaling \$8.0 million in tax credits by the Iowa Economic Development Authority (IEDA) to one or more nonprofit corporations operating an Innovations Fund.

This Bill also deletes a current requirement that a person receiving an Innovations Fund Tax Credit wait three tax years before redeeming the credit. This will make the tax credits redeemable soon after award. In addition, this Bill also increases the tax credit from the current 20.0% of the equity investment to 50.0% of the equity investment in an Innovations Fund and makes the tax credits transferable. The maximum annual tax credit total remains at \$8.0 million.

This Bill is effective on enactment and applies retroactively to tax year 2013 and to equity investments made on or after January 1, 2013.

**Background**

The Innovation Fund was created in **SF 517** (Economic Development Appropriations Act of 2011). The Innovation Fund is one or more early-stage capital funds certified by the IEDA Board. The 20.0% tax credit for equity investments in the Innovation Fund was also created in SF 517.

The tax credit cannot be redeemed until the third tax year after the tax year in which the qualified investment was made. Under current law, the tax credits are not refundable or transferrable, but unused credits may be carried forward for up to five additional tax years.

The IEDA is required to allocate \$8.0 million of its annual \$120.0 million tax credit cap to the Innovation Fund beginning in FY 2012 (see **Iowa Code section 15.119**). The IEDA cannot allocate unused Innovation Fund credits to other programs that also exist under the \$120.0 million cap.

Taxpayers that invest in the Innovation Fund likely receive equity interest in the fund. Under the provisions of this Bill, they will also receive a state income tax credit equal to 50.0% of their investment and the credit may be redeemed immediately. At the current 20.0% tax credit rate, the Innovation Fund could generate \$40.0 million per year if the \$8.0 million tax credit was fully utilized. With the tax credit increased to 50.0%, the annual tax credit will net \$16.0 million in Innovation Fund investments each year.

### Assumptions

- Since inception of the tax credit there have been no Innovation Fund investments that qualify for this credit. It is assumed that the \$8.0 million in Innovation Fund tax credits allowed under current law for FY 2013 will not be issued. With the retroactive application of the changes to the tax credit, the increase to a 50.0% credit, removal of the three tax year waiting period, and the transferability provision, the \$8.0 million available for FY 2013 is assumed to be fully awarded. These tax credits are assumed to be redeemed in FY 2014.
- Under current law, the \$8.0 million annual tax credit allocation may or may not be used, depending on the demand for these tax credits under the conditions of current law. This fiscal estimate assumes the credits for FY 2014 and subsequent years will be fully utilized under both current law and with the changes contained in this Bill.
- Transferable tax credits are purchased by entities with significant state tax liability and are therefore redeemed within 12 months of award and at full value.

### Fiscal Impact

The changes to the Innovation Fund Tax Credit contained in this Bill will reduce taxes paid by taxpayers utilizing the tax credits. The estimated impact of the tax reduction on the State General Fund is provided in the following table.

	<b>Net General Fund Impact of HF 585</b>		
	In millions of dollars		
	Tax Credit Redemptions Under Current Law	Tax Credit Redemptions Under HF 615	Tax Credit Impact on General Fund Revenue
FY 2013	\$ 0.0	\$ 0.0	\$ 0.0
FY 2014	0.0	-8.0	-8.0
FY 2015	0.0	-8.0	-8.0
FY 2016	0.0	-8.0	-8.0
FY 2017	-2.7	-8.0	-5.3
FY 2018	-5.4	-8.0	-2.6
FY 2019	-8.0	-8.0	0.0

### Source

Legislative Services Agency Analysis

/s/ Holly M. Lyons

April 1, 2013

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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.

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