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SENATE FILE

2422

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SHEARER, SOUKUP, JUDGE, and GRONSTAL

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to approved equity investments in qualifying
2 businesses and providing tax credits.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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SF 2422
WAYS & MEANS

1 Section 1. NEW SECTION. 15E.41 PURPOSE.

2 The purpose of this division is to enhance the quality of
3 life for citizens of this state by encouraging the creation of
4 new jobs, industry, products, and wealth through the increased
5 availability and accessibility to capital, particularly at the
6 seed and venture capital investment stages.

7 Sec. 2. NEW SECTION. 15E.42 TAX CREDITS.

8 1. For tax years beginning on or after January 1, 2000, a
9 tax credit shall be allowed against the taxes imposed in
10 chapter 422, divisions II, III, and V, and in chapter 432, for
11 net losses, as described in section 15E.43, subsection 2,
12 incurred by a taxpayer in an equity investment approved
13 pursuant to section 15E.43. An individual may claim the
14 credit of a partnership, limited liability company, S
15 corporation, estate or trust electing to have income taxed
16 directly to the individual. The amount claimed by the
17 individual shall be based upon the pro rata share of the
18 individual's earnings from the partnership, limited liability
19 company, S corporation, estate or trust. Any tax credit in
20 excess of the taxpayer's liability for the tax year may be
21 credited to the tax liability for the following three years or
22 until depleted, whichever is earlier. A tax credit shall not
23 be carried back to a tax year prior to the tax year in which
24 the taxpayer redeems the tax credit.

25 2. The maximum tax credit for a qualifying taxpayer shall
26 not exceed fifty percent of the taxpayer's original equity
27 investment in an approved investment or one hundred thousand
28 dollars, whichever is less.

29 3. The aggregate amount of tax credits issued under this
30 section for taxes imposed pursuant to chapter 422, divisions
31 II, III, and V, and chapter 432 shall not exceed a total of
32 thirty-five million dollars.

33 4. The department of revenue and finance, in consultation
34 with the department of economic development, shall develop a
35 system for registration, authorization, and redemption of tax

1 credits issued by the state under this section. The
2 department of revenue and finance and the department of
3 economic development shall adopt any other policies,
4 procedures, or rules pursuant to chapter 17A necessary for the
5 administration of this division and of tax credits issued by
6 the state under this section.

7 Sec. 3. NEW SECTION. 15E.43 APPROVED INVESTMENTS.

8 1. In order for an investment to qualify for a tax credit
9 under section 15E.42, the investment must be approved by the
10 department of economic development and be in a qualifying
11 business. In order to be a qualifying business, the business
12 must meet all of the following criteria:

13 a. The business is located in this state.

14 b. The business has been in operation for five years or
15 less.

16 c. The business has a business plan which details the
17 business's growth strategy, the management team if applicable,
18 a production or management plan, a financial plan, and other
19 standard elements of a business plan.

20 d. The business has an owner who is currently
21 participating in, or has successfully completed, a recognized
22 entrepreneurial venture development curriculum or have an
23 owner with a minimum of three years of management experience.

24 e. The business is not a business engaged primarily in
25 retail sales, the provision of health care or other
26 professional services, or the distribution of products or
27 services.

28 2. a. A tax credit authorized under section 15E.42 may be
29 redeemed for losses of the taxpayer's original equity
30 investment realized upon either of the following, whichever
31 occurs first:

32 (1) Upon the insolvency of the business.

33 (2) Upon transfer of ownership of substantially all of the
34 qualifying business after a minimum of three years from the
35 date of the qualifying equity investment that, at the time of

1 the transfer, would demonstrate a documented loss in the value
2 of the original equity investment.

3 b. The tax credit shall not be redeemed later than ten
4 years from the date of the qualifying investment.

5 Sec. 4. NEW SECTION. 15E.44 REPORTS AND RESERVES.

6 1. By December 15 of each year, the department of economic
7 development, in consultation with the department of revenue
8 and finance, shall submit a report to the governor and the
9 general assembly. The report shall include, but not be
10 limited to, the anticipated value of any tax credits issued
11 and the estimated current and anticipated impact the approved
12 investments have on the state.

13 2. The department of economic development shall conduct an
14 annual risk analysis which matches the current and anticipated
15 value of approved equity investments with the current and
16 anticipated value of any tax credits issued. If the
17 anticipated value of the tax credits authorized exceeds the
18 anticipated value of approved investments, the department of
19 economic development shall establish a reserve account within
20 the repayment stream of an Iowa agricultural industry finance
21 loan made pursuant to section 15E.208 sufficient to cover such
22 losses to the general fund of the state in the event that tax
23 credits are redeemed.

24 Sec. 5. NEW SECTION. 422.11C APPROVED INVESTMENT TAX
25 CREDIT.

26 The taxes imposed under this division, less the credits
27 allowed under sections 422.12 and 422.12B, shall be reduced by
28 an approved investment tax credit authorized pursuant to
29 sections 15E.41 through 15E.44.

30 An individual may claim the approved investment tax credit
31 allowed a partnership, limited liability company, S
32 corporation, or estate or trust electing to have the income
33 taxed directly to the individual. The amount claimed by the
34 individual shall be based upon the pro rata share of the
35 individual's earnings of the partnership, limited liability

1 company, S corporation, or estate or trust.

2 Any credit in excess of the tax liability for the tax year
3 may be credited to the tax liability for the following three
4 years or until depleted, whichever is earlier.

5 Sec. 6. Section 422.33, Code Supplement 1999, is amended
6 by adding the following new subsection:

7 NEW SUBSECTION. 9. The taxes imposed under this division
8 shall be reduced by an approved investment tax credit
9 authorized pursuant to sections 15E.41 through 15E.44.

10 Any credit in excess of the tax liability for the tax year
11 may be credited to the tax liability for the following three
12 tax years or until depleted, whichever is earlier.

13 Sec. 7. Section 422.60, Code 1999, is amended by adding
14 the following new subsection:

15 NEW SUBSECTION. 4. The taxes imposed under this division
16 shall be reduced by an approved investment tax credit
17 authorized pursuant to sections 15E.41 through 15E.44.

18 Any credit in excess of the tax liability for the tax year
19 may be credited to the tax liability for the following three
20 tax years or until depleted, whichever is earlier.

21 Sec. 8. NEW SECTION. 432.12A APPROVED INVESTMENT TAX
22 CREDIT.

23 The taxes imposed under this chapter shall be reduced by an
24 approved investment tax credit authorized pursuant to sections
25 15E.41 through 15E.44.

26 Any credit in excess of the tax liability for the calendar
27 year may be credited to the tax liability for the following
28 three calendar years or until depleted, whichever is earlier.

29 EXPLANATION

30 This bill creates a personal income, corporate income,
31 financial institution franchise, and insurance premium tax
32 credit which may be claimed by a taxpayer for net losses
33 incurred by the taxpayer in an approved equity investment.

34 The bill provides that any tax credit in excess of the
35 taxpayer's liability may be credited to the tax liability for

1 the following three years or until depleted, whichever is
2 earlier. The bill provides that the tax credit shall not be
3 carried back to previous tax years. The bill provides that
4 the maximum tax credit for a qualifying taxpayer shall not
5 exceed 50 percent of the taxpayer's original equity investment
6 in an approved investment or \$100,000, whichever is less. The
7 bill provides that the aggregate amount of tax credits issued
8 by the state shall not exceed a total of \$35 million.

9 The bill provides that in order for an investment to
10 qualify for a tax credit, the investment must be approved by
11 the department of economic development and be in a qualifying
12 business which meets certain criteria. The bill provides that
13 a tax credit may be redeemed for losses of the taxpayer's
14 original equity investment incurred upon the insolvency of the
15 business or upon the transfer of ownership of substantially
16 all of the qualifying business after a minimum of three years
17 from the date of the qualifying equity investment. The bill
18 provides that the tax credit shall not be redeemed later than
19 10 years from the date of the qualifying investment.

20 The bill provides that, by December 15 of each year, the
21 department of economic development, in consultation with the
22 department of revenue and finance, shall submit a report to
23 the governor and the general assembly relating to the
24 anticipated value of any tax credits issued and the estimated
25 current and anticipated impact the approved investments have
26 on the state. The bill provides that the department of
27 economic development shall conduct an annual risk analysis
28 which matches the current and anticipated value of approved
29 equity investments with the current and anticipated value of
30 any tax credits issued. The bill provides that if the
31 anticipated value of the tax credits authorized exceeds the
32 anticipated value of qualifying equity investments, the
33 department of economic development shall establish a reserve
34 account within the repayment stream of an Iowa agricultural
35 industry finance loan made pursuant to Code section 15E.208

1 sufficient to cover such losses to the general fund of the
2 state in the event that tax credits are redeemed.

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