

FILED MAR 31 1914

SENATE FILE 2302
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 3171)

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

A BILL FOR

1 An Act relating to tax credits for investments in certain
2 qualifying businesses and community-based seed capital funds
3 and providing for retroactive applicability.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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SF 2302
WAYS & MEANS

1 Section 1. Section 15E.42, subsection 3, Code Supplement
2 2003, is amended to read as follows:

3 3. "Investor" means ~~an individual~~ a person making a cash
4 investment in a qualifying business or ~~an individual taxed on~~
5 ~~income from a revocable trust's cash investment in a~~
6 ~~qualifying business or a person making a cash investment~~ in a
7 community-based seed capital fund. "Investor" does not
8 include a person ~~which is a current or previous~~ that holds at
9 least a seventy percent ownership interest as an owner,
10 member, or shareholder in a qualifying business.

11 Sec. 2. Section 15E.43, subsection 1, paragraphs a and b,
12 Code Supplement 2003, are amended to read as follows:

13 ~~a. For tax years beginning on or after January 1, 2002, a~~
14 ~~tax credit shall be allowed against the taxes imposed in~~
15 ~~chapter 422, division II, for a portion of an individual~~
16 ~~taxpayer's equity investment, as provided in subsection 2, in~~
17 ~~a qualifying business. An individual shall not claim a tax~~
18 ~~credit under this paragraph of a partnership, limited~~
19 ~~liability company, S corporation, estate, or trust electing to~~
20 ~~have income taxed directly to the individual. However, an~~
21 ~~individual receiving income from a revocable trust's~~
22 ~~investment in a qualified business may claim a tax credit~~
23 ~~under this paragraph against the taxes imposed in chapter 422,~~
24 ~~division II, for a portion of the revocable trust's equity~~
25 ~~investment, as provided in subsection 2, in a qualified~~
26 ~~business.~~

27 b. For tax years beginning on or after January 1, 2002, a
28 tax credit shall be allowed against the taxes imposed in
29 chapter 422, divisions II, III, and V, and in chapter 432, and
30 against the moneys and credits tax imposed in section 533.24,
31 for a portion of a taxpayer's equity investment, as provided
32 in subsection 2, in a qualifying business or a community-based
33 seed capital fund. An individual may claim a tax credit under
34 this paragraph of a partnership, limited liability company, S
35 corporation, estate, or trust electing to have income taxed

1 directly to the individual. The amount claimed by the
2 individual shall be based upon the pro rata share of the
3 individual's earnings from the partnership, limited liability
4 company, S corporation, estate, or trust.

5 Sec. 3. Section 15E.44, subsection 4, Code Supplement
6 2003, is amended to read as follows:

7 4. After verifying the eligibility of a qualifying
8 business, the board shall issue a tax credit certificate to be
9 attached to the equity investor's tax return. The tax credit
10 certificate shall contain the taxpayer's name, address, tax
11 identification number, the amount of credit, the name of the
12 qualifying business, and other information required by the
13 department of revenue. The tax credit certificate, unless
14 rescinded by the board, shall be accepted by the department of
15 revenue as payment for taxes imposed pursuant to chapter 422,
16 division divisions II, III, and V, and in chapter 432, and for
17 the moneys and credits tax imposed in section 533.24, subject
18 to any conditions or restrictions placed by the board upon the
19 face of the tax credit certificate and subject to the
20 limitations of section 15E.43.

21 Sec. 4. Section 15E.45, subsection 2, paragraphs b and c,
22 Code Supplement 2003, are amended to read as follows:

23 b. The fund has, on or after January 1, 2002, a total of
24 both capital commitments from investors and investments in
25 qualifying businesses of at least five one hundred twenty-five
26 thousand dollars, but not more than three million dollars.

27 c. The fund has no fewer than ten five investors who are
28 not affiliates, with no single investor and affiliates of that
29 investor together owning a total of more than twenty-five
30 percent of the ownership interests outstanding in the fund.

31 Sec. 5. Section 15E.45, subsection 6, Code Supplement
32 2003, is amended to read a follows:

33 6. In the event that a community-based seed capital fund
34 fails to meet or maintain any requirement set forth in this
35 section, or in the event that the community-based seed capital

1 fund has not invested at least thirty-three percent of its
2 invested capital in ~~no-fewer-than-two~~ one or more separate
3 qualifying businesses, measured at the end of the thirty-sixth
4 month after commencing the fund's investing activities, the
5 board shall rescind any tax credit certificates issued to
6 limited partners or members and shall notify the department of
7 revenue that it has done so, and the tax credit certificates
8 shall be null and void. However, a community-based seed
9 capital fund may apply to the board for a one-year waiver of
10 the requirements of this subsection.

11 Sec. 6. Section 15E.51, subsection 4, Code Supplement
12 2003, is amended to read as follows:

13 4. A taxpayer shall not claim a tax credit under this
14 section if the taxpayer is a venture capital investment fund
15 allocation manager for the Iowa fund of funds created in
16 section 15E.65 or an investor that receives a tax credit for
17 the same investment in a qualifying business as described in
18 section 15E.44 or in a community-based seed capital fund as
19 described in section 15E.45.

20 Sec. 7. APPLICABILITY DATE. This Act applies
21 retroactively to January 1, 2004, for tax years beginning on
22 or after that date.

23 EXPLANATION

24 This bill relates to tax credits for investments in certain
25 qualifying businesses and community-based seed capital funds.

26 The bill amends the definition of "investor" to provide
27 that an investor is a person making a cash investment in a
28 qualifying business or in a community-based seed capital fund.
29 The bill also amends the exclusion to the definition of
30 "investor" to provide that the term "investor" does not
31 include a person that holds at least a 70 percent ownership
32 interest as an owner, member, or shareholder in a qualifying
33 business.

34 Currently, a tax credit is allowed against personal income
35 tax liability equal to a portion of an individual taxpayer's

1 equity investment in a qualifying business. The bill provides
2 that in addition to personal income tax liability, the tax
3 credit may be allowed against corporate income tax, the
4 franchise tax for financial institutions, the insurance
5 premium tax, and the moneys and credits tax for credit unions
6 for a portion of a taxpayer's equity investment in a
7 qualifying business. The bill makes conforming amendments.

8 The bill amends the criteria for community-based seed
9 capital funds. The bill provides that a fund must have no
10 fewer than five investors who are not affiliates. Current law
11 requires no fewer than 10 investors who are not affiliates.
12 The bill reduces the minimum required capital commitment from
13 investors and investments in qualifying businesses from
14 \$500,000 to \$125,000.

15 The bill amends a requirement that tax certificates shall
16 be rescinded and nullified by the Iowa capital investment
17 board if a community-based seed capital fund has not invested
18 at least 33 percent of its invested capital in no fewer than
19 two separate qualifying businesses, measured at the end of the
20 36th month after commencing the fund's investing activities.
21 The bill changes the two separate qualifying businesses
22 criteria to one or more separate qualifying businesses.

23 The bill applies retroactively to January 1, 2004, for tax
24 years beginning on or after that date.

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Wieck
McKibben
Stewart

Succeeded By
CF/HF 2302 SSB#3171

Ways & Means

SENATE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON MCKIBBEN)

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