

FEB 16 2006
ECONOMIC GROWTH

HOUSE FILE 2420
BY QUIRK

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

A BILL FOR

1 An Act allowing the creation of capital improvement investment
2 accounts for certain small businesses and providing tax
3 credits and exemptions.

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

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1 Section 1. NEW SECTION. 15E.361 CAPITAL IMPROVEMENT
2 INVESTMENT ACCOUNTS.

3 1. As used in this section, unless the context otherwise
4 requires:

5 a. "Account" means a capital improvement investment
6 account.

7 b. "Eligible borrower" means a small business located in
8 this state, operated for profit, under the management of an
9 individual, which has either fewer than twenty full-time
10 employees or an annual gross income of less than three million
11 dollars computed as an average over the three fiscal years
12 preceding the opening of a capital improvement investment
13 account.

14 2. An eligible borrower may open a capital improvement
15 investment account at a financial institution for the purpose
16 of making capital improvements to the borrower's business. A
17 tax credit under subsection 3 may be claimed for a
18 contribution to an account. State income tax treatment of
19 accounts shall be as provided in section 422.7, subsection 45,
20 and section 422.35, subsection 22. Assets shall only be
21 withdrawn from an account if the assets are to be used for
22 improvements to real property. The department shall develop
23 and administer a procedure for purposes of verifying that
24 withdrawn assets are used for improvements to real property.

25 3. An eligible borrower may claim a tax credit equal to
26 twenty-five percent of a contribution to an account. The tax
27 credit shall be allowed against taxes imposed under chapter
28 422, divisions II and III. If the business is a partnership,
29 S corporation, limited liability company, cooperative
30 organized under chapter 501 and filing as a partnership for
31 federal tax purposes, or estate or trust electing to have the
32 income taxed directly to the individual, an individual may
33 claim the tax credit allowed. The amount claimed by the
34 individual shall be based upon the pro rata share of the
35 individual's earnings of the partnership, S corporation,

1 limited liability company, cooperative organized under chapter
2 501 and filing as a partnership for federal tax purposes, or
3 estate or trust. Any tax credit in excess of the tax
4 liability for the tax year may be credited to the tax
5 liability for the following seven years or until depleted,
6 whichever occurs first.

7 4. The department of economic development, in cooperation
8 with the department of revenue, shall adopt rules pursuant to
9 chapter 17A for purposes of administering this section.

10 Sec. 2. Section 422.7, Code Supplement 2005, is amended by
11 adding the following new subsection:

12 NEW SUBSECTION. 45. a. Subtract interest and earnings on
13 a capital improvement investment account under section
14 15E.361.

15 b. Add the amount equal to the balance at the time a
16 capital improvement investment account under section 15E.361
17 is closed.

18 Sec. 3. NEW SECTION. 422.11M CAPITAL IMPROVEMENT
19 INVESTMENT ACCOUNT CONTRIBUTION TAX CREDIT.

20 The taxes imposed under this division, less the credits
21 allowed under sections 422.12 and 422.12B, shall be reduced by
22 a capital improvement investment account contribution tax
23 credit authorized pursuant to section 15E.361.

24 Sec. 4. Section 422.33, Code Supplement 2005, is amended
25 by adding the following new subsection:

26 NEW SUBSECTION. 20. The taxes imposed under this division
27 shall be reduced by a capital improvement investment account
28 contribution tax credit authorized pursuant to section
29 15E.361.

30 Sec. 5. Section 422.35, Code Supplement 2005, is amended
31 by adding the following new subsection:

32 NEW SUBSECTION. 22. a. Subtract interest and earnings on
33 a capital improvement investment account under section
34 15E.361.

35 b. Add the amount equal to the balance at the time a

1 capital improvement investment account under section 15E.361
2 is closed.

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EXPLANATION

4 This bill allows the creation of capital improvement
5 investment accounts by certain small businesses and provides
6 tax credits and exemptions.

7 The bill allows an eligible borrower to open a capital
8 improvement investment account at a financial institution for
9 the purpose of making capital improvements to the borrower's
10 business. An eligible borrower is a small business located in
11 this state, operated for profit, under the management of an
12 individual, which has either fewer than 20 full-time employees
13 or an annual gross income of less than \$3 million computed as
14 an average over the three fiscal years preceding the opening
15 of a capital improvement investment account. The bill allows
16 a tax credit to be claimed for a contribution to an account.
17 The tax credit is equal to 25 percent of a contribution and
18 may be used against personal and corporate tax liabilities.
19 The bill provides that assets shall only be withdrawn from an
20 account if the assets are to be used for improvements to real
21 property. The bill requires the department of economic
22 development to develop and administer a procedure for purposes
23 of verifying that withdrawn assets are used for improvements
24 to real property.

25 The bill provides that interest and earnings on accounts
26 are exempt from income for purposes of personal and corporate
27 tax liabilities. The bill provides that the amount equal to
28 the balance at the time a capital improvement investment
29 account is closed is added to income for purposes of
30 determining personal and corporate income tax liability.

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