

MAR 9 2006
WAYS AND MEANS

HOUSE FILE 2728
BY COMMITTEE ON ECONOMIC GROWTH

(SUCCESSOR TO HSB 751)

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

A BILL FOR

1 An Act relating to software and technology-related incentives and
2 tax credits and including effective and retroactive
3 applicability date provisions.

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

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

HF 2728

1 Section 1. NEW SECTION. 15E.361 SOFTWARE DEVELOPMENT TAX
2 CREDIT.

3 For tax years beginning on or after January 1, 2006, a tax
4 credit shall be allowed against the taxes imposed in chapter
5 422, divisions II and III, equal to twenty percent of the
6 total value of the software developed and used by the taxpayer
7 originally for internal purposes. In order to claim a tax
8 credit under this section, a taxpayer must receive approval
9 from the department that the software for which a tax credit
10 is claimed was developed and used by the taxpayer originally
11 for internal purposes. Upon approval, the department of
12 economic development shall notify the department of revenue
13 that approval has been given for the software. An individual
14 may claim a tax credit under this section of a partnership,
15 limited liability company, S corporation, estate, or trust
16 electing to have income taxed directly to the individual. The
17 amount claimed by the individual shall be based upon the pro
18 rata share of the individual's earnings from the partnership,
19 limited liability company, S corporation, estate, or trust.
20 Any tax credit in excess of the taxpayer's tax liability for
21 the tax year may be credited to the tax liability for the
22 following five years or until depleted, whichever occurs
23 first. A tax credit shall not be carried back to a tax year
24 prior to the tax year in which the taxpayer claims the tax
25 credit. The aggregate amount of tax credits authorized
26 pursuant to this section shall not exceed a total of two
27 million dollars each fiscal year. The department of economic
28 development, in cooperation with the department of revenue,
29 shall develop a system for registration and authorization of
30 tax credits under this section.

31 Sec. 2. NEW SECTION. 15E.362 ENTREPRENEURIAL GRANT
32 PROGRAM -- FUND.

33 1. The department shall establish and administer an
34 entrepreneurial grant program for purposes of encouraging
35 start-up companies in the areas of information technology

1 designated by the department through the awarding of grants
2 from moneys in the entrepreneurial grant fund created in
3 subsection 2. In awarding grants under the program, the
4 department shall consult with a statewide member-based
5 association focusing on the technology industry. A grant
6 under the program shall not exceed twenty-five thousand
7 dollars per start-up business. Each fiscal year, the
8 department shall not award an aggregate amount of more than
9 two hundred fifty thousand dollars under the program. In
10 order to be eligible to receive a grant under the program, an
11 applicant must meet all of the following criteria:

12 a. The resulting business must be an Iowa business and the
13 applicant must be a resident of this state.

14 b. The applicant must have successfully completed a
15 recognized entrepreneurial venture development curriculum.

16 2. An entrepreneurial grant fund is created in the state
17 treasury under the control of the department and consisting of
18 any moneys appropriated by the general assembly and any other
19 moneys available to and obtained or accepted by the department
20 for placement in the fund. Payments of interest and
21 recaptures of grants shall be deposited in the fund. The fund
22 shall be used to provide grants under the entrepreneurial
23 grant program established in subsection 1. Moneys in the fund
24 are not subject to section 8.33. Notwithstanding section
25 12C.7, interest or earnings on moneys in the fund shall be
26 credited to the fund.

27 Sec. 3. NEW SECTION. 422.11M SOFTWARE DEVELOPMENT TAX
28 CREDIT.

29 The taxes imposed under this division, less the credits
30 allowed under sections 422.12 and 422.12B, shall be reduced by
31 a software development tax credit authorized pursuant to
32 section 15E.361.

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

35 NEW SUBSECTION. 20. The taxes imposed under this division

1 shall be reduced by a software development tax credit
2 authorized pursuant to section 15E.361.

3 Sec. 5. EFFECTIVE AND RETROACTIVE APPLICABILITY DATES.

4 This Act, being deemed of immediate importance, takes effect
5 upon enactment and applies retroactively to January 1, 2006,
6 for tax years beginning on or after January 1, 2006.

7 EXPLANATION

8 This bill relates to software and technology-related
9 incentives and tax credits.

10 The bill allows a taxpayer to claim a tax credit equal to
11 20 percent of the total value of the software developed and
12 used by the taxpayer originally for internal purposes. The
13 tax credit is allowed against personal and corporate income
14 tax liabilities. The bill provides that, in order to claim
15 the tax credit, a taxpayer must receive approval from the
16 department of economic development that the software for which
17 a tax credit is claimed was developed and used by the taxpayer
18 originally for internal purposes. The bill provides that any
19 tax credit in excess of the taxpayer's tax liability for a tax
20 year may be credited to the tax liability for the following
21 five years or until depleted, whichever occurs first. The
22 bill provides that a tax credit shall not be carried back to a
23 tax year prior to the tax year in which the taxpayer claims
24 the tax credit. The bill limits the aggregate amount of tax
25 credits that may be authorized to not more than \$2 million per
26 fiscal year.

27 The bill requires the department to establish and
28 administer an entrepreneurial grant program for purposes of
29 encouraging start-up companies in the areas of information
30 technology designated by the department through the awarding
31 of grants from moneys in the entrepreneurial grant fund. The
32 bill provides that a grant under the program shall not exceed
33 \$25,000 per start-up business. The bill provides that the
34 department shall not award an aggregate amount of more than
35 \$250,000. The bill provides that, in order to be eligible to

1 receive a grant under the program, the resulting business must
2 be an Iowa business and the applicant must be a resident of
3 the state and must have successfully completed a recognized
4 entrepreneurial venture development curriculum. The bill
5 creates an entrepreneurial grant fund in the state treasury
6 under the control of the department to be used for purposes of
7 the entrepreneurial grant program.

8 The bill takes effect upon enactment and applies
9 retroactively to January 1, 2006, for tax years beginning on
10 or after January 1, 2006.

11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2728 - Power Iowa Technology Program (LSB 6433 HV)
Analyst: Ron Robinson (Phone: [515] 281-6256) (ron.robinson@legis.state.ia.us)
Fiscal Note Version - NEW

Description

House File 2728 allows a taxpayer to claim a tax credit equal to 20.0% of the total value of software originally developed and used by the taxpayer for internal purposes. The tax credit is allowed against personal and corporate income tax liabilities. In order to claim the tax credit, a taxpayer must receive approval from the Department of Economic Development (DED) that the software for which a tax credit is claimed was originally developed and used by the taxpayer for internal purposes. The Bill provides that any tax credit in excess of the taxpayer's tax liability for a tax year may be credited to the tax liability for the following five years or until depleted, whichever occurs first. The Bill provides that a tax credit shall not be carried back to a tax year prior to the tax year in which the taxpayer claims the tax credit. The Bill limits the aggregate amount of tax credits that may be authorized to not more than \$2.0 million per fiscal year.

The Bill also requires the DED to establish and administer an Entrepreneurial Grant Program for purposes of encouraging startup companies in the areas of information technology designated by the DED through the awarding of grants from moneys in the Entrepreneurial Grant Fund. A grant under the Program is not to exceed \$25,000 per startup business. The Bill provides that the DED will not award an aggregate amount of more than \$250,000. In order to be eligible to receive a grant under the Program, the resulting business must be an Iowa business and the applicant must be a resident of the State and must have successfully completed a recognized entrepreneurial venture development curriculum. The Bill creates an Entrepreneurial Grant Fund to be used for purposes of the Program.

The Bill takes effect upon enactment and applies retroactively to January 1, 2006, for tax years beginning on or after January 1, 2006.

Assumption

Over \$10.0 million in Software, originally developed and used by taxpayers for internal purposes, will be developed annually, and the taxpayer will have sufficient income to fully utilize the tax credits.

Fiscal Impact

House File 2728 will reduce General Fund revenue by approximately \$2.0 million annually beginning in FY 2006 due to the use of the tax credits.

House File 2728 requires the establishment of an Entrepreneurial Grant Program and Fund. The Bill provides that not more than \$250,000 will be awarded through the Program. The Bill does not provide an appropriation or funding source for the Fund.

The fiscal impact does not include an adjustment for "indirect" impacts on State or local revenue. Both positive and negative indirect impacts are possible. Positive indirect impacts may include employees expending salary dollars within the State and growth in other businesses created and expanded to meet the needs of the new business. Negative indirect impacts may include the effect of the new business on other Iowa businesses when competing for labor, capital, and sales, as well as the additional demand for schools, roads, police and fire protection, and other government services that necessarily result from higher levels of employment and population.

Sources

Department of Economic Development
Department of Revenue

/s/ Holly M. Lyons

April 4, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Succeeded By
SF 02728

HSB 751
ECONOMIC GROWTH

Wilderdyke, CH.
Lukan
Reichert

HOUSE FILE _____
BY (PROPOSED COMMITTEE ON
ECONOMIC GROWTH BILL BY
CHAIRPERSON HOFFMAN)

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

A BILL FOR

1 An Act relating to software and technology-related incentives and
2 tax credits and including effective and retroactive
3 applicability date provisions.

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

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

1 Section 1. NEW SECTION. 15E.361 SOFTWARE DEVELOPMENT TAX
2 CREDIT.

3 For tax years beginning on or after January 1, 2006, a tax
4 credit shall be allowed against the taxes imposed in chapter
5 422, divisions II and III, equal to twenty percent of the
6 total gross sales during the tax year on software developed
7 and used by the taxpayer originally for internal purposes. In
8 order to claim a tax credit under this section, a taxpayer
9 must receive approval from the department that the software
10 for which a tax credit is claimed was developed and used by
11 the taxpayer originally for internal purposes. Upon approval,
12 the department of economic development shall notify the
13 department of revenue that approval has been given for the
14 software. An individual may claim a tax credit under this
15 section of a partnership, limited liability company, S
16 corporation, estate, or trust electing to have income taxed
17 directly to the individual. The amount claimed by the
18 individual shall be based upon the pro rata share of the
19 individual's earnings from the partnership, limited liability
20 company, S corporation, estate, or trust. Any tax credit in
21 excess of the taxpayer's tax liability for the tax year may be
22 credited to the tax liability for the following five years or
23 until depleted, whichever occurs first. A tax credit shall
24 not be carried back to a tax year prior to the tax year in
25 which the taxpayer claims the tax credit.

26 Sec. 2. NEW SECTION. 15E.362 ENTREPRENEURIAL GRANT
27 PROGRAM -- FUND.

28 1. The department shall establish and administer an
29 entrepreneurial grant program for purposes of encouraging
30 start-up companies in the areas of information technology and
31 other targeted industries designated by the department through
32 the awarding of grants from moneys in the entrepreneurial
33 grant fund created in subsection 2. In awarding grants under
34 the program, the department shall consult with a statewide
35 member-based association focusing on the technology industry.

1 A grant under the program shall not exceed twenty-five
2 thousand dollars per start-up business. In order to be
3 eligible to receive a grant under the program, an applicant
4 must meet all of the following criteria:

5 a. The applicant must be a graduate of a college or
6 university located in the state.

7 b. The applicant must have successfully completed a
8 recognized entrepreneurial venture development curriculum.

9 2. An entrepreneurial grant fund is created in the state
10 treasury under the control of the department and consisting of
11 any moneys appropriated by the general assembly and any other
12 moneys available to and obtained or accepted by the department
13 for placement in the fund. Payments of interest and
14 recaptures of grants shall be deposited in the fund. The fund
15 shall be used to provide grants under the entrepreneurial
16 grant program established in subsection 1. Moneys in the fund
17 are not subject to section 8.33. Notwithstanding section
18 12C.7, interest or earnings on moneys in the fund shall be
19 credited to the fund.

20 Sec. 3. NEW SECTION. 422.11M SOFTWARE DEVELOPMENT TAX
21 CREDIT.

22 The taxes imposed under this division, less the credits
23 allowed under sections 422.12 and 422.12B, shall be reduced by
24 a software development tax credit authorized pursuant to
25 section 15E.361.

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

28 NEW SUBSECTION. 20. The taxes imposed under this division
29 shall be reduced by a software development tax credit
30 authorized pursuant to section 15E.361.

31 Sec. 5. EFFECTIVE AND RETROACTIVE APPLICABILITY DATES.

32 This Act, being deemed of immediate importance, takes effect
33 upon enactment and applies retroactively to January 1, 2006,
34 for tax years beginning on or after January 1, 2006.

35

EXPLANATION

1 This bill relates to software and technology-related
2 incentives and tax credits.

3 The bill allows a taxpayer to claim a tax credit equal to
4 20 percent of the total gross sales during the tax year on
5 software developed and used by the taxpayer originally for
6 internal purposes. The tax credit is allowed against personal
7 and corporate income tax liabilities. The bill provides that,
8 in order to claim the tax credit, a taxpayer must receive
9 approval from the department of economic development that the
10 software for which a tax credit is claimed was developed and
11 used by the taxpayer originally for internal purposes. The
12 bill provides that any tax credit in excess of the taxpayer's
13 tax liability for a tax year may be credited to the tax
14 liability for the following five years or until depleted,
15 whichever occurs first. The bill provides that a tax credit
16 shall not be carried back to a tax year prior to the tax year
17 in which the taxpayer claims the tax credit.

18 The bill requires the department to establish and
19 administer an entrepreneurial grant program for purposes of
20 encouraging start-up companies in the areas of information
21 technology and other targeted industries designated by the
22 department through the awarding of grants from moneys in the
23 entrepreneurial grant fund. The bill provides that a grant
24 under the program shall not exceed \$25,000 per start-up
25 business. The bill provides that, in order to be eligible to
26 receive a grant under the program, an applicant must be a
27 graduate of a college or university located in the state and
28 must have successfully completed a recognized entrepreneurial
29 venture development curriculum. The bill creates an
30 entrepreneurial grant fund in the state treasury under the
31 control of the department to be used for purposes of the
32 entrepreneurial grant program.

33 The bill takes effect upon enactment and applies
34 retroactively to January 1, 2006, for tax years beginning on
35 or after January 1, 2006.