

MAR 10 2006
WAYS AND MEANS

HOUSE FILE 2745
BY COMMITTEE ON ECONOMIC GROWTH

(SUCCESSOR TO HSB 597)

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

A BILL FOR

1 An Act relating to certified capital companies and providing a
2 certified capital company insurance premium tax credit and
3 penalties.

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

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HF 2745

1 Section 1. NEW SECTION. 15E.401 SHORT TITLE.

2 This division shall be known and may be cited as the "Iowa
3 Seed Growth Fund Act".

4 Sec. 2. NEW SECTION. 15E.402 DEFINITIONS.

5 As used in this division, unless the context otherwise
6 requires:

7 1. "Affiliate" means, with respect to a certified
8 investor, any of the following:

9 a. A person who, directly or indirectly, beneficially
10 owns, whether through rights, options, convertible interests,
11 or otherwise controls or holds power to vote, ten percent or
12 more of the outstanding voting securities or other voting
13 ownership interests of the certified investor.

14 b. A person, ten percent of whose outstanding voting
15 securities or other voting ownership interests are directly or
16 indirectly beneficially owned, whether through rights,
17 options, convertible interests, or otherwise controlled or
18 held with power to vote by the certified investor.

19 c. A person directly or indirectly controlling, controlled
20 by, or under common control with the certified investor.

21 d. A partnership in which the certified investor is a
22 general partner.

23 e. A person who is an officer, director, or agent of the
24 certified investor or is an immediate family member of such an
25 officer, director, or agent.

26 2. "Certified capital company" means the Iowa capital
27 investment corporation organized pursuant to section 15E.64.

28 3. "Certified capital company tax credit" means the tax
29 credit made available under section 15E.412.

30 4. "Certified capital investment" means an investment in a
31 certified capital company that is certified pursuant to
32 section 15E.404, subsection 2, and that fully funds either the
33 investor's equity interest in a certified capital company or a
34 qualified debt instrument that a certified capital company
35 issues.

1 5. "Certified investor" means a person who makes a
2 certified capital investment.

3 6. "Director" means the director of the department or the
4 director's designee.

5 7. "Investment date" means, with respect to each
6 investment pool, the date on which the last certified capital
7 investment that is part of that investment pool was invested
8 in the certified capital company.

9 8. "Investment pool" means the aggregate of all certified
10 capital investments in a certified capital company that are
11 made as part of the same transaction, except that investments
12 received more than thirty days apart shall not be considered
13 part of the same investment pool.

14 9. "Qualified business" means a business which is a
15 qualified business under section 15E.405.

16 10. "Qualified debt instrument" means a debt instrument
17 that meets all of the following criteria:

18 a. A certified capital company issues the instrument at
19 par value or at a premium.

20 b. The instrument has an original maturity date of at
21 least five years from the date on which it was issued.

22 c. The instrument has a repayment schedule that is no
23 faster than a level principal amortization over five years.

24 d. The instrument does not contain an equity component or
25 interest, distribution, or payment features which are related
26 to the certified capital company's profitability or the
27 performance of its investment portfolio, whether the component
28 or features are part of or attached to the qualified debt
29 instrument or are distributed or sold separately and purchased
30 or obtained by the holder of the qualified debt instrument or
31 any of its affiliates.

32 11. "Qualified distribution" means a distribution or
33 payment by a certified capital company for any of the
34 following:

35 a. The reasonable costs, not to exceed two percent of the

1 capital that may be invested by the certified capital company,
2 of forming, syndicating, or operating the certified capital
3 company, provided that all of the following apply:

4 (1) No such distribution or payment is made directly or
5 indirectly to a certified investor or an affiliate thereof.

6 (2) At the time the certified capital company closes an
7 investment pool and after deducting the aggregate of the costs
8 of organizing, forming, syndicating, insuring, and terminating
9 the certified capital company's obligations, the certified
10 capital company has, not including investments from qualified
11 investors, cash or permissible investments equal to at least
12 fifty percent of the amount of certified capital company tax
13 credit allocated to the certified capital company.

14 b. An annual management fee that does not exceed two and
15 one-half percent of the capital that may be invested by the
16 certified capital company.

17 c. Reasonable and necessary fees paid for professional
18 services related to the operation of the certified capital
19 company.

20 d. A projected increase in federal or state taxes,
21 including penalties and interest on those taxes, of the equity
22 owners of the certified capital company if those amounts are
23 related to the certified capital company's ownership,
24 management, or operation.

25 12. "Qualified investment" means an investment in a
26 qualified business by a certified capital company that meets
27 the requirements under section 15E.406.

28 13. "Qualified investor" means a person who makes an
29 investment in a certified capital company that is not a
30 certified capital investment and that does not qualify for
31 certified capital company tax credits. A "qualified investor"
32 shall not be a certified investor. The department may
33 establish by rule the requirements for a qualified investor.

34 14. "Targeted business" means a business that is an early-
35 seed-capital stage-of-development business and that meets one

1 or more of the following requirements:

2 a. Has its principal place of business in an enterprise
3 zone certified pursuant to section 15E.195.

4 b. Has its principal place of business in an area
5 designated as a revitalization area pursuant to section 404.1.

6 c. Is a participant in the business resource center
7 program established pursuant to section 15E.21.

8 d. Has its principal place of business located in an area
9 designated as an economic enterprise area pursuant to section
10 15E.233.

11 e. Is a participant in a business accelerator program
12 established pursuant to section 15E.351.

13 f. Is engaged in one or more of the following industries:

14 (1) Biotechnology.

15 (2) Advanced manufacturing.

16 (3) Information technology.

17 g. Meets other criteria established by the department.

18 Sec. 3. NEW SECTION. 15E.403 CERTIFICATION OF CERTIFIED
19 CAPITAL COMPANIES.

20 1. The department shall certify a person as a certified
21 capital company if the department determines that all of the
22 following conditions have been met:

23 a. The directors, officers, general partners, trustees,
24 managers, members, or persons having a similar function are
25 familiar with the requirements of this division.

26 b. At least two officers, directors, general partners,
27 trustees, managers, or members each have at least four years
28 of experience in the venture capital industry, or the person
29 retains the services of an investment advisor with expertise
30 in the area of venture capital investment.

31 c. The person has included, in any offering material
32 involving the sale of securities, the statements required
33 under section 15E.404, subsection 1.

34 d. The person has not engaged in dishonest or unethical
35 practices as the department may define by rule adopted

1 pursuant to chapter 17A.

2 2. In order to be certified, the person shall enter into
3 an agreement with the department. At a minimum, the agreement
4 shall include provisions relating to annual reviews as
5 provided in section 15E.409, subsection 1, and the payment of
6 all returns on investments to the department as provided in
7 section 15E.408, subsection 2.

8 3. The department shall adopt rules pursuant to chapter
9 17A relating to procedures for defining conflicts of
10 interests.

11 Sec. 4. NEW SECTION. 15E.404 INVESTMENTS IN CERTIFIED
12 CAPITAL COMPANIES.

13 1. Any offering material involving the sale of securities
14 of a certified capital company shall include all of the
15 following statements:

16 a. "By authorizing the formation of a certified capital
17 company, the state does not necessarily endorse the quality of
18 management or the potential for earnings of the company and is
19 not liable for damages or losses to a certified investor in
20 the certified capital company. Use of the word "certified" in
21 an offering is not a recommendation or endorsement of the
22 investment by the Department of Economic Development."

23 b. "Investments in a prospective certified capital company
24 prior to the time the company is certified are not eligible
25 for a certified capital company tax credit under section
26 15E.412 of the Iowa Code. Investments in a certified capital
27 company are not eligible for a certified capital company tax
28 credit under section 15E.412 of the Iowa Code, unless the
29 proposed investment is certified under section 15E.404,
30 subsection 2 of the Iowa Code, before the investment is made.
31 In the event that certain statutory provisions are violated,
32 the state may require forfeiture of unused certified capital
33 company tax credits and repayment of used certified capital
34 company tax credits."

35 2. Certification of capital investments shall occur

1 according to the following procedure:

2 a. Application for certification of a capital investment
3 shall be submitted by providing notice to the department on a
4 form prescribed by the department. The notice shall include
5 the name of the person applying for certification, the name of
6 the certified capital company, the amount of the proposed
7 investment, and any other information specified by the
8 department. The notice shall also include an undertaking by
9 the person to make the capital investment within five days
10 after the department notifies the person that the capital
11 investment has been certified.

12 b. The department may certify a capital investment under
13 this subsection only if, after the certification, the
14 department will not have certified a total of more than fifty
15 million dollars in certified capital investments under this
16 subsection. A certified capital company shall not file
17 applications on behalf of its certified investors to make
18 certified capital investments in excess of the maximum amount
19 of investments that may be certified under this subsection.

20 c. Prior to the first day of the thirteenth month
21 beginning after the effective date of this Act, the department
22 shall not certify an investment under this subsection if,
23 after the certification, the certified investor, together with
24 all affiliates of the certified investor, would have invested
25 more than fifteen million dollars in certified capital
26 investments.

27 d. If, as a result of the limitations under paragraph "b"
28 or "c", the department does not certify the full amount
29 requested in applications for certified capital investments
30 submitted under paragraph "a", the department shall allocate
31 the amounts available for certification on a pro rata basis in
32 accordance with this paragraph. The pro rata allocation for
33 each certified investor shall be the product of both of the
34 following:

35 (1) A fraction, the numerator of which is the amount of

1 the certified capital company tax credit requested on behalf
2 of the certified investor and the denominator of which is the
3 total amount of all certified capital company tax credits
4 requested on behalf of all certified investors.

5 (2) The total amount of investments for which certified
6 capital tax credits may be allowed under paragraph "b".

7 3. Capital investments shall not be certified on behalf of
8 the certified investors of a certified capital company unless
9 the aggregate amount of capital certified on behalf of all of
10 the certified investors of such certified capital company
11 would be at least five million dollars, after giving effect to
12 any allocation required by subsection 2, paragraph "d". Any
13 capital investments that are not allocated to the certified
14 investors of a certified capital company shall be reallocated
15 to the other capital companies making applications for
16 certified capital investments on the same day in accordance
17 with the provisions of subsection 2, paragraph "d", as if the
18 certified capital company which received no allocation
19 pursuant to this subsection had never submitted applications
20 for certified capital investments.

21 4. Capital investments shall not be certified on behalf of
22 the certified investors of a certified capital company unless
23 the certified capital company has received irrevocable written
24 commitments from qualified investors stating that such
25 qualified investors will invest amounts with the certified
26 capital company which total at least fifty percent of the
27 amount of capital investment for which the certified capital
28 company receives certification. Such investments from
29 qualified investors must be received within two years of the
30 date on which the certified capital company receives
31 certification from the department.

32 Sec. 5. NEW SECTION. 15E.405 QUALIFIED BUSINESSES.

33 1. A business is a qualified business if the business is
34 in need of venture capital and is unable to obtain sufficient
35 conventional financing. To demonstrate that the business is

1 unable to obtain sufficient conventional financing, the
2 business shall provide written documentation in a format
3 approved by the department that the business has failed in at
4 least two attempts in the preceding twelve months to obtain
5 funding for a loan from a bank or other commercial lender with
6 sufficient lending capacity. The amount of the loans the
7 business attempted to obtain must have been not greater than
8 the amount of funding the business proposes to receive from a
9 certified capital company. The business shall further certify
10 in writing that the business cannot reasonably be expected to
11 qualify for financing from a bank or other commercial lender
12 under the standards of commercial lending. In addition, the
13 business shall meet all of the following requirements at the
14 time that a certified capital company, or any affiliate of the
15 certified capital company, makes its first investment in the
16 business:

17 a. The business is headquartered in this state and its
18 principal business operations are located in this state.

19 b. The business has no more than one hundred employees, at
20 least seventy-five percent of whom are employed in the state.

21 c. During the two most recent fiscal years of the
22 business, the business had, together with all of the
23 affiliates of the business, an average annual net income,
24 after federal income taxes and excluding any carryover losses,
25 of not more than five million dollars as determined in
26 accordance with generally accepted accounting principles.

27 d. The business has, together with the affiliates of the
28 business, a net worth that is not in excess of fifteen million
29 dollars.

30 e. The business is not predominately engaged in the
31 provision of professional services provided by accountants,
32 attorneys, or physicians.

33 f. The business is not engaged in the development of real
34 estate for resale.

35 g. The business is not engaged in banking or lending and

1 does not make any loans to, or investments in, certified
2 capital companies.

3 h. The business is predominantly engaged in any of the
4 following:

- 5 (1) Manufacturing, processing, or assembling products.
- 6 (2) Conducting research and development.
- 7 (3) Providing services.

8 i. It is the intent of the business to provide long-term
9 attractive compensation packages with many of the compensation
10 packages for owners and employees to be risk and venture-based
11 with a focus on future returns.

12 j. The business intends to retain its operations and
13 employees in the state after receipt of investments from a
14 certified capital company. In any agreement for moneys from
15 the certified capital company, the certified capital company
16 shall require the recapture or repayment of moneys if the
17 business moves its operations and employees out of the state
18 after receipt of the moneys.

19 2. A certified capital company may, prior to making an
20 investment in a specified business, request a written opinion
21 from the department that a business in which it proposes to
22 invest is a qualified business. If the department determines
23 that the business meets the requirements under subsection 1,
24 the department shall issue a written opinion stating that the
25 business is a qualified business. If the department
26 determines that the business in which the certified capital
27 company proposes to invest does not meet the requirements
28 under subsection 1, paragraphs "a" through "j", the department
29 may consider the business a qualified business and approve the
30 investment if the department determines that the proposed
31 investment will further economic development in this state.

32 3. Upon approval by the department, any business which is
33 classified as a qualified business at the time of the first
34 investment in the business by a certified capital company
35 shall remain classified as a qualified business and may

1 receive follow-on investments from any certified capital
2 company or any of its affiliates, and the follow-on
3 investments shall be qualified investments even though the
4 business does not meet the definition of a qualified business
5 at the time of such follow-on investments, provided that at
6 the time of the follow-on investment the business provides
7 written documentation in a format approved by the department
8 that the business has failed in at least two attempts in the
9 preceding twelve months to obtain funding for a loan from a
10 bank or other commercial lender with sufficient lending
11 capacity. The amount of the loans the business attempted to
12 obtain must have been not greater than the amount of the
13 follow-on investments. The business shall further certify in
14 writing that the business cannot reasonably be expected to
15 qualify for financing from a bank or other commercial lender
16 under the standards of commercial lending.

17 Sec. 6. NEW SECTION. 15E.406 OPERATION OF CERTIFIED
18 CAPITAL COMPANIES.

19 1. In order for a certified capital company to prevent
20 disqualification of an investment pool under section 15E.409,
21 the certified capital company shall ensure that the investment
22 pool makes qualified investments in accordance with the
23 schedule under subsection 2. An investment is a qualified
24 investment if the investment meets all of the following
25 requirements:

26 a. The investment is a cash investment in a qualified
27 business for the purchase of any of the following:

28 (1) An equity security of the qualified business.

29 (2) A debt security of the qualified business if the debt
30 has a maturity of at least five years and if one of the
31 following conditions is met:

32 (a) The debt is unsecured.

33 (b) The debt is convertible into equity securities or
34 equity participation instruments such as options or warrants.

35 b. As a condition of the investment, the qualified

1 business agrees not to use the proceeds from the investment
2 for the purpose of relocating its operations.

3 c. As a condition of the investment, the qualified
4 business agrees, as long as the certified capital company
5 continues to hold the investment, not to relocate its
6 headquarters out of this state.

7 d. As a condition of the investment, the qualified
8 business agrees, as long as the certified capital company
9 continues to hold the investment, to maintain at least
10 seventy-five percent of its employees in this state.

11 e. As a condition of the investment, the qualified
12 business agrees, as long as the certified capital company
13 continues to hold the investment, to maintain at least
14 seventy-five percent of its employees at work sites that were
15 maintained by the qualified business at the time that the
16 investment was made, unless the qualified business obtains an
17 exemption from the department under this paragraph.

18 f. As an alternative to a qualified business making the
19 agreements set forth in paragraphs "c", "d", and "e", a
20 certified capital company making the investment may agree that
21 if, during the period in which its investment in such
22 qualified business is outstanding or within three months after
23 the termination or repayment of such investment, the qualified
24 business relocates its headquarters outside of this state or
25 fails to continue to satisfy the conditions set forth in
26 paragraph "d" or "e", then the cumulative amount of qualified
27 investments for the investment pool from which such qualified
28 investments were made shall be reduced by the amount of the
29 qualified investment in such business for the purposes of
30 section 15E.408 only, unless either of the following apply:

31 (1) The certified capital company invests an amount, at
32 least equal to the investment within six months of the
33 relocation or failure to satisfy the conditions set forth in
34 paragraph "d" or "e", as applicable.

35 (2) The qualified business demonstrates that it has

1 returned its headquarters to this state or has reestablished
2 compliance with the conditions set forth in paragraph "d" or
3 "e", as applicable, within three months of such relocation or
4 failure, as applicable.

5 2. a. A certified capital company shall ensure that each
6 of its investment pools makes qualified investments within ten
7 years after the investment date for a particular investment
8 pool, and that the certified capital company has made
9 qualified investments cumulatively equal to at least one
10 hundred percent of the investment pool with at least forty
11 percent of such qualified investments having been made in
12 targeted businesses.

13 b. The proceeds of all capital of a qualified investment
14 returned to a certified capital company by a qualified
15 business may be placed in new qualified investments, which
16 shall count toward the percentage requirements under paragraph
17 "a" and section 15E.408, subsection 2. The department shall
18 adopt rules that provide that proceeds from the sale of an
19 investment in a qualified business that are reinvested in that
20 qualified business, or an affiliate of the qualified business,
21 shall be only partially counted toward the percentage
22 requirements under paragraph "a", section 15E.408, subsection
23 2, and section 15E.409, subsection 4, paragraph "a",
24 subparagraph (2).

25 3. All certified capital investments in a certified
26 capital company that are not invested in qualified investments
27 may be held or invested by the certified capital company as it
28 considers appropriate, except that a certified capital company
29 shall not invest certified capital investments in an insurance
30 company or in an affiliate of an insurance company.

31 4. A certified capital company shall not make a qualified
32 investment in a person if, at the time of the investment, more
33 than fifteen percent of the total certified capital of the
34 certified capital company would be invested in that person and
35 affiliates of that person.

1 5. A certified capital company shall not be managed or
2 controlled by, or have a general partner that is, an insurance
3 company or an affiliate of an insurance company.

4 Sec. 7. NEW SECTION. 15E.407 REPORTING REQUIREMENTS AND
5 FEES.

6 1. As soon as practical after the receipt of a certified
7 capital investment, a certified capital company shall report
8 all of the following to the department:

9 a. The name of the certified investor from which the
10 certified capital investment was received, including the
11 certified investor's tax identification number.

12 b. The amount of the certified capital investment.

13 c. The date on which the certified capital investment was
14 received by the certified capital company.

15 2. As soon as practical after the receipt of information
16 by the certified capital company that a qualified business has
17 violated an agreement made under section 15E.406, subsection
18 1, paragraphs "b" through "e", the certified capital company
19 shall notify the department of the violation and the facts
20 giving rise to the violation.

21 3. On or before January 31 each year, a certified capital
22 company shall report all of the following to the department:

23 a. The amount of the certified capital company's certified
24 capital at the end of the preceding calendar year.

25 b. Whether the certified capital company has invested more
26 than fifteen percent of its total certified capital in any one
27 person.

28 c. All qualified investments that the certified capital
29 company has made during the previous calendar year and the
30 investment pool from which each qualified investment was made.

31 4. Within ninety days of the end of the certified capital
32 company's fiscal year, the certified capital company shall
33 provide to the department a copy of its annual audited
34 financial statements, including the opinion of an independent
35 certified public accountant. The audit shall address the

1 methods of operation and conduct of the business of the
2 certified capital company to determine whether the certified
3 capital company is complying with this division and the rules
4 adopted pursuant to this division, including whether certified
5 capital investments have been invested in the manner required
6 under section 15E.406. The financial statements provided
7 under this subsection shall be segregated by investment pool
8 and shall be separately audited on that basis to allow the
9 department to determine whether the certified capital company
10 is in compliance with section 15E.406, subsection 2.

11 5. On or before January 31 of each year, a certified
12 capital company shall pay a nonrefundable certification fee of
13 five thousand dollars to the department, unless January 31 is
14 within six months of the date on which the certified capital
15 company was certified under section 15E.403. If a certified
16 capital company fails to pay its certification fee on or
17 before that date, the company must pay, in addition to the
18 certification fee, a late fee of five thousand dollars to
19 continue its certification.

20 6. If the department determines that a document submitted
21 by a certified capital company under this section contains a
22 trade secret as defined in section 550.2, the information
23 shall be treated as a confidential trade secret not subject to
24 release under section 22.7.

25 7. The department may impose an administrative penalty on
26 a certified capital company that violates this division. The
27 amount of the penalty shall not exceed twenty-five thousand
28 dollars, and each day a violation continues or occurs is a
29 separate violation for the purpose of imposing a penalty. The
30 amount of the penalty shall be based on all of the following:

- 31 a. The seriousness of the violation, including the nature,
32 circumstances, extent, and gravity of the violation.
- 33 b. The economic harm caused by the violation.
- 34 c. The history of previous violations.
- 35 d. The amount necessary to deter a future violation.

1 e. Efforts to correct the violation.

2 f. Any other matter that justice may require.

3 A proceeding to impose the penalty is considered to be a
4 contested case proceeding under chapter 17A.

5 Sec. 8. NEW SECTION. 15E.408 DISTRIBUTIONS.

6 1. A certified capital company may make a distribution or
7 payment only if one of the following conditions is met:

8 a. The distribution or payment is a qualified
9 distribution.

10 b. The department made a written determination that the
11 distribution or payment may be made without adversely
12 affecting the ability of the certified capital company to make
13 qualified investments in an amount cumulatively equal in the
14 aggregate to one hundred percent of the certified capital
15 investment in the investment pool from which the distribution
16 or payment is to be made.

17 c. The certified capital company has made qualified
18 investments in an amount cumulatively equal in the aggregate
19 to one hundred percent of the certified capital investments in
20 the investment pool and has made investments in targeted
21 businesses equal in the aggregate to at least forty percent of
22 the certified capital investments in the investment pool.

23 d. The distribution or payment is payment of principal or
24 interest owed to a debt holder of a certified capital company,
25 even if the debt holder is also a holder of equity and even if
26 the indebtedness is a certified capital investment.

27 2. At the time of making such a distribution after
28 satisfying the requirements of subsection 1, the certified
29 capital company shall pay to the department an amount equal to
30 one hundred percent of the return on investment on the
31 certified investment capital invested in the certified capital
32 company.

33 Sec. 9. NEW SECTION. 15E.409 COMPLIANCE REVIEWS --
34 DECERTIFICATION -- DISQUALIFICATION.

35 1. The department shall conduct an annual review of each

1 certified capital company to determine if the certified
2 capital company is complying with the requirements of this
3 division, to advise the certified capital company regarding
4 the status of its investments as qualified investments, and to
5 ensure that an investment has not been made in violation of
6 this division. The cost of the annual review shall be paid by
7 each certified capital company according to a reasonable fee
8 schedule adopted by the department.

9 2. Any material violation of section 15E.406, subsection
10 2, is a ground for disqualification of the noncomplying
11 investment pool. If the department determines that the
12 certified capital company is not in compliance with section
13 15E.406, subsection 2, with respect to an investment pool, the
14 department shall send a written notice to the certified
15 capital company and the department of revenue stating that the
16 investment pool has been disqualified.

17 3. Any material violation of section 15E.406, subsections
18 2 through 4, or section 15E.407, subsections 1 through 4, is a
19 ground for decertification of the noncomplying certified
20 capital company. If the department determines that the
21 certified capital company is not in compliance with section
22 15E.406, subsections 2 through 4, or section 15E.407,
23 subsections 1 through 4, the department shall send a written
24 notice to the certified capital company that the certified
25 capital company may be subject to decertification in one
26 hundred twenty days from the date on which the notice was
27 mailed, unless the certified capital company brings itself
28 into full compliance. If at the end of the one-hundred-
29 twenty-day period the certified capital company has not
30 brought itself into full compliance, the department shall send
31 a notice to the certified capital company and the commissioner
32 of insurance stating that the certified capital company has
33 been decertified.

34 4. a. A certified capital company may voluntarily
35 decertify itself as a certified capital company if any of the

1 following conditions are met:

2 (1) It has been at least ten years since the last
3 certified capital investment was made in the certified capital
4 company.

5 (2) The certified capital company has made qualified
6 investments in an amount cumulatively equal to at least one
7 hundred percent of the certified capital investment in the
8 certified capital company.

9 b. A certified capital company wishing to decertify itself
10 under this subsection shall send a notice to the department
11 certifying that the certified capital company is eligible for
12 decertification under paragraph "a". The decertification is
13 effective on the date that the notice under this paragraph is
14 received by the department.

15 5. Approval by the department of a voluntary
16 decertification of a certified capital company shall be
17 required prior to the voluntary decertification if the
18 decertification occurs within five years from the date the
19 certified capital company was originally certified.

20 6. Decertification of a certified capital company or
21 disqualification of an investment pool has the effects
22 specified in section 15E.412.

23 7. The department shall notify a certified investor when
24 the certified capital company tax credit arising from a
25 certified investment is no longer subject to recapture and
26 forfeiture under section 15E.412.

27 Sec. 10. NEW SECTION. 15E.410 DEPARTMENT EVALUATION OF
28 THE PROGRAM.

29 Beginning on January 31, 2008, and on every January 31 of
30 each even-numbered year thereafter, the department shall
31 submit a report to the general assembly regarding the program
32 under this division. The report shall include all of the
33 following:

34 1. The total amount of certified capital investments made
35 during the previous two calendar years, as well as the total

1 amount of certified capital investments made since July 1,
2 2006.

3 2. Statistical information on the qualified investments
4 made by certified capital companies during the previous two
5 calendar years.

6 3. The department's assessment of the number of jobs
7 created in this state during the previous two calendar years
8 as a result of the certified capital company program under
9 this division.

10 Sec. 11. NEW SECTION. 15E.411 RULES.

11 The department shall adopt rules pursuant to chapter 17A
12 necessary to administer this division.

13 Sec. 12. NEW SECTION. 15E.412 CERTIFIED CAPITAL COMPANY
14 INSURANCE PREMIUM TAX CREDIT.

15 1. A certified investor which is an insurance company
16 organized under the laws of this state or admitted to do
17 business in this state shall earn, two years after it makes a
18 certified capital investment, a vested tax credit against the
19 insurance premium tax liability of the certified investor
20 under chapter 432, or similar taxes, equal to one hundred
21 percent of the certified investor's certified capital
22 investment. A certified investor shall be entitled to claim
23 up to ten percent of the vested premium tax credit in any
24 taxable year of the certified investor. The credit to be
25 applied against a certified investor's premium tax liability
26 in any one year shall not exceed such certified investor's
27 premium tax liability for such taxable year. Any credit in
28 excess of the tax liability for a taxable year may be credited
29 to the tax liability for succeeding taxable years until
30 depleted.

31 2. If a certified capital company is decertified, or an
32 investment pool is disqualified, under section 15E.409, before
33 the certified capital company fulfills the investment
34 requirement under section 15E.406, subsection 2, paragraph
35 "a", subparagraph (1), with respect to the investment pool, a

1 certified investor that has received a tax credit under this
2 section shall be subject to a recapture tax equal to the tax
3 credit claimed with respect to the investment pool. A
4 certified investor shall not claim any remaining tax credits
5 with respect to that investment pool.

6 3. If a certified capital company fulfills the investment
7 requirement under section 15E.406, subsection 2, paragraph
8 "a", subparagraph (1), with respect to the investment pool but
9 the certified capital company is decertified, or an investment
10 pool is disqualified under section 15E.409, before the
11 certified capital company fulfills the investment requirement
12 under section 15E.406, subsection 2, paragraph "a",
13 subparagraph (2), for that investment pool, a certified
14 investor that has received a tax credit under this section
15 with respect to that investment pool shall be subject to a
16 recapture tax equivalent to all tax credits claimed under this
17 section for taxable years after the taxable year that includes
18 the second anniversary of the investment date of the
19 investment pool. A certified investor shall not claim any
20 remaining tax credits for taxable years after the taxable year
21 that includes the second anniversary of the investment date of
22 the investment pool.

23 4. If a certified capital company fulfills the investment
24 requirement under section 15E.406, subsection 2, paragraph
25 "a", subparagraphs (1) and (2), with respect to the investment
26 pool but the certified capital company is decertified, or an
27 investment pool is disqualified under section 15E.409, before
28 the certified capital company fulfills the investment
29 requirement under section 15E.406, subsection 2, paragraph
30 "a", subparagraph (3), for that investment pool, a certified
31 investor that has received a tax credit under this section
32 with respect to that investment pool shall be subject to a
33 recapture tax equivalent to all tax credits claimed under this
34 section for taxable years after the taxable year that includes
35 the third anniversary of the investment date of the investment

1 pool. A certified investor shall not claim any remaining tax
2 credits for taxable years after the taxable year that includes
3 the third anniversary of the investment date of the investment
4 pool.

5 5. If a certified capital company satisfies the investment
6 requirements under section 15E.406, subsection 2, paragraph
7 "a", with respect to the investment pool, but the certified
8 capital company is decertified, a certified investor that has
9 received a tax credit under this section with respect to that
10 investment pool shall not be subject to a recapture tax with
11 respect to the tax credits previously utilized or forfeit any
12 unused credits, provided that such decertification did not
13 occur prior to the fourth anniversary of the investment date
14 of the investment pool. If the decertification did occur
15 prior to the fourth anniversary of the investment date of the
16 investment pool, all tax credits claimed or to be claimed
17 prior to such anniversary shall not be subject to recapture or
18 forfeiture, but all credits to be taken after such anniversary
19 shall be forfeited.

20 6. A certified investor may sell a certified capital
21 company tax credit to another insurance company organized
22 under the laws of this state or admitted to do business in
23 this state if the certified investor notifies the department
24 of revenue of the sale and includes with the notification a
25 copy of the transfer documents.

26 7. Once a certified capital company has voluntarily
27 decertified all investment pools under its control, the
28 certified capital company shall not be subject to regulation
29 by the department. However, after a certified capital company
30 has voluntarily decertified, the department shall continue to
31 monitor any qualified business which received an investment
32 from the decertified certified capital company and make an
33 annual report to the general assembly by January 31 of each
34 year regarding the monitoring of qualified businesses. The
35 report shall include the number of jobs created by the

1 qualified business, the average wage of the jobs in that
2 qualified business, and other useful information as deemed
3 appropriate by the department which would illustrate the
4 impact the business has on the economy of the state. The
5 department shall continue to monitor and report to the general
6 assembly on the qualified business until all tax credits have
7 been claimed by the certified investors of that decertified
8 certified capital company or ten years have elapsed from the
9 date the decertified certified capital company was certified,
10 whichever is longer.

11

EXPLANATION

12 This bill relates to certified capital companies and
13 provides a certified capital company insurance premium tax
14 credit and penalties.

15 The bill provides that the department of economic
16 development shall certify the Iowa capital investment
17 corporation organized pursuant to Code section 15E.64 as a
18 certified capital company provided certain conditions are met.
19 The bill provides that, upon certification, the certified
20 capital company shall enter into an agreement with the
21 department which, at a minimum, shall include provisions
22 relating to annual reviews and the payment of all returns on
23 investments to the department.

24 The bill provides a procedure for certifying capital
25 investments in a certified capital company. The bill
26 prohibits the department from certifying more than \$50 million
27 in certified investments in a certified capital company. The
28 bill provides that, prior to the first day of the thirteenth
29 month beginning after the effective date of the bill, the
30 department shall not certify an investment if, after
31 certification, the certified investor would have invested more
32 than \$15 million in certified capital investments. The bill
33 prohibits capital investments from being certified unless the
34 aggregate amount of capital certified on behalf of all of the
35 certified investors of the certified capital company would be

1 at least \$5 million. The bill prohibits capital investments
2 from being certified unless the certified capital company has
3 received irrevocable written commitments from qualified
4 investors stating that such qualified investors will invest
5 amounts with the certified capital company which total at
6 least 50 percent of the amount of capital investment for which
7 the certified capital company receives certification.

8 The bill provides that a business is a qualified business
9 if the business is in need of venture capital, is unable to
10 obtain sufficient conventional financing, and meets certain
11 other criteria. The bill allows a certified capital company
12 to request a written opinion from the department to determine
13 whether a specified business is a qualified business. The
14 bill provides that, upon approval by the department, any
15 business which is classified as a qualified business at the
16 time of the first investment in the business shall remain
17 classified as a qualified business and may receive follow-on
18 investments from a certified capital company and the follow-on
19 investments shall be qualified investments even though the
20 business does not meet the definition of a qualified business
21 at the time of such follow-on investments, provided certain
22 criteria are met.

23 The bill provides that an investment is a qualified
24 investment if the investment is a certain type of cash
25 investment, the qualified business agrees not to use the
26 proceeds for the purpose of relocating operations, the
27 qualified business agrees not to relocate its headquarters out
28 of this state as long as the certified capital company
29 continues to hold the investment, the qualified business
30 agrees to maintain at least 75 percent of its employees in
31 this state as long as the certified capital company continues
32 to hold the investment, and the qualified business agrees to
33 maintain at least 75 percent of its employees at work sites
34 that were maintained by the qualified business at the time the
35 investment was made unless the business receives an exemption

1 as long as the certified capital company continues to hold the
2 investment. The bill allows some alternatives to some of the
3 qualifications for a qualified investment.

4 The bill provides that a certified capital company shall
5 ensure that each of its investment pools makes qualified
6 investments within 10 years after the investment date for a
7 particular investment pool and that the certified capital
8 company has made qualified investments cumulatively equal to
9 at least 100 percent of the investment pool with at least 40
10 percent of such qualified investments having been made in
11 targeted businesses. The bill allows proceeds of qualified
12 investments returned to a certified capital company by a
13 qualified business to be placed in new qualified investments.
14 The bill allows certified capital investments that are not
15 invested in qualified investments to be held or invested by
16 the certified capital company as it considers appropriate,
17 except that investments in an insurance company are
18 prohibited. The bill prohibits a certified capital company
19 from making a qualified investment in a person if, at the time
20 of investment, more than 15 percent of the total certified
21 capital of the certified capital company would be invested in
22 that person. The bill prohibits a certified capital company
23 from being managed or controlled by, or having a general
24 partner that is, an insurance company.

25 The bill creates reporting requirements for a certified
26 capital company upon the receipt of a certified capital
27 investment and upon the violation of an agreement by a
28 qualified business. The bill provides annual reporting
29 requirements for certified capital companies. The bill
30 requires a certified capital company to pay an annual
31 nonrefundable certification fee of \$5,000 to the department.
32 The bill allows the department to impose administrative
33 penalties on certified capital companies not to exceed
34 \$25,000.

35 The bill provides that a certified capital company may make

1 distributions or payments only if certain criteria are met.

2 The bill requires the department to conduct annual
3 compliance reviews of certified capital companies. The bill
4 allows certain violations to be grounds for disqualification
5 of noncomplying investment pools. The bill allows certain
6 violations to be grounds for decertification of noncomplying
7 certified capital companies. The bill allows a certified
8 capital company to voluntarily decertify if certain criteria
9 are met and the department approves the voluntary
10 decertification.

11 The bill requires the department to conduct a review of the
12 program every two years beginning January 31, 2008, for
13 submission to the general assembly.

14 The bill provides that a certified investor which is an
15 insurance company shall earn, two years after it makes a
16 certified investment, a vested tax credit against the
17 insurance premium tax liability of the certified investor.
18 The bill provides that the tax credit shall be equal to 10
19 percent of the vested premium tax credit in any taxable year
20 of the certified investor. The bill allows for a recapture
21 tax in the event of a certified capital company being
22 decertified or an investment pool being disqualified. The
23 bill allows a certified investor to sell a tax credit to
24 another insurance company if the certified investor notifies
25 the department of revenue of the sale.

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ECONOMIC GROWTH

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 certified capital companies and providing a
2 certified capital company insurance premium tax credit and
3 penalties.

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

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1 Section 1. NEW SECTION. 15E.401 SHORT TITLE.

2 This division shall be known and may be cited as the "Small
3 Enterprise Employment Development Act".

4 Sec. 2. NEW SECTION. 15E.402 DEFINITIONS.

5 As used in this division, unless the context otherwise
6 requires:

7 1. "Affiliate" means, with respect to a certified capital
8 company or a certified investor, any of the following:

9 a. A person who, directly or indirectly, beneficially
10 owns, whether through rights, options, convertible interests,
11 or otherwise controls or holds power to vote, ten percent or
12 more of the outstanding voting securities or other voting
13 ownership interests of the certified capital company or
14 certified investor, as applicable.

15 b. A person, ten percent of whose outstanding voting
16 securities or other voting ownership interests are directly or
17 indirectly beneficially owned, whether through rights,
18 options, convertible interests, or otherwise controlled or
19 held with power to vote by the certified capital company or
20 certified investor, as applicable.

21 c. A person directly or indirectly controlling, controlled
22 by, or under common control with the certified capital company
23 or certified investor, as applicable.

24 d. A partnership in which the certified capital company or
25 certified investor, as applicable, is a general partner.

26 e. A person who is an officer, director, or agent of the
27 certified capital company or certified investor, as
28 applicable, or is an immediate family member of such an
29 officer, director, or agent.

30 2. "Certified capital company" means a person who is
31 certified by the department pursuant to section 15E.403.

32 3. "Certified capital company tax credit" means the tax
33 credit made available under section 15E.412.

34 4. "Certified capital investment" means an investment in a
35 certified capital company that is certified pursuant to

1 section 15E.404, subsection 2, and that fully funds either the
2 investor's equity interest in a certified capital company or a
3 qualified debt instrument that a certified capital company
4 issues.

5 5. "Certified investor" means a person who makes a
6 certified capital investment.

7 6. "Director" means the director of the department or the
8 director's designee.

9 7. "Investment date" means, with respect to each
10 investment pool, the date on which the last certified capital
11 investment that is part of that investment pool was invested
12 in the certified capital company.

13 8. "Investment pool" means the aggregate of all certified
14 capital investments in a certified capital company that are
15 made as part of the same transaction, except that investments
16 received more than thirty days apart shall not be considered
17 part of the same investment pool.

18 9. "Qualified business" means a business which is a
19 qualified business under section 15E.405.

20 10. "Qualified debt instrument" means a debt instrument
21 that meets all of the following criteria:

22 a. A certified capital company issues the instrument at
23 par value or at a premium.

24 b. The instrument has an original maturity date of at
25 least five years from the date on which it was issued.

26 c. The instrument has a repayment schedule that is no
27 faster than a level principal amortization over five years.

28 d. The instrument does not contain an equity component or
29 interest, distribution, or payment features which are related
30 to the certified capital company's profitability or the
31 performance of its investment portfolio, whether the component
32 or features are part of or attached to the qualified debt
33 instrument or are distributed or sold separately and purchased
34 or obtained by the holder of the qualified debt instrument or
35 any of its affiliates.

1 11. "Qualified distribution" means a distribution or
2 payment by a certified capital company for any of the
3 following:

4 a. The reasonable costs of forming, syndicating, managing,
5 or operating the certified capital company, provided that all
6 of the following apply:

7 (1) No such distribution or payment is made directly or
8 indirectly to a certified investor or an affiliate thereof.

9 (2) At the time the certified capital company closes an
10 investment pool and after deducting the aggregate of the costs
11 of organizing, forming, syndicating, insuring, and terminating
12 the certified capital company's obligations, the certified
13 capital company has, not including investments from qualified
14 investors, cash or permissible investments equal to at least
15 fifty percent of the amount of certified capital company tax
16 credit allocated to the certified capital company.

17 b. An annual management fee that does not exceed two and
18 one-half percent of the certified capital company's total
19 certified capital.

20 c. Reasonable and necessary fees paid for professional
21 services related to the operation of the certified capital
22 company.

23 d. A projected increase in federal or state taxes,
24 including penalties and interest on those taxes, of the equity
25 owners of the certified capital company if those amounts are
26 related to the certified capital company's ownership,
27 management, or operation.

28 12. "Qualified investment" means an investment in a
29 qualified business by a certified capital company that meets
30 the requirements under section 15E.406.

31 13. "Qualified investor" means a person who makes an
32 investment in a certified capital company that is not a
33 certified capital investment and that does not qualify for
34 certified capital company tax credits. The department may
35 establish by rule the requirements for a qualified investor.

1 14. "Targeted business" means a business that meets one or
2 more of the following requirements:

3 a. Has its principal place of business in an enterprise
4 zone certified pursuant to section 15E.195.

5 b. Has its principal place of business in an area
6 designated as a revitalization area pursuant to section 404.1.

7 c. Is a participant in the business resource center
8 program established pursuant to section 15E.21.

9 d. Has its principal place of business located in an area
10 designated as an economic enterprise area pursuant to section
11 15E.233.

12 e. Is a participant in a business accelerator program
13 established pursuant to section 15E.351.

14 f. Is engaged in one or more of the following industries:

15 (1) Biotechnology.

16 (2) Advanced manufacturing.

17 (3) Information technology.

18 g. Meets other criteria established by the department.

19 Sec. 3. NEW SECTION. 15E.403 CERTIFICATION OF CERTIFIED
20 CAPITAL COMPANIES.

21 1. A person applying to become a certified capital company
22 shall submit an application to the department. The department
23 shall grant or deny an application for certification within
24 thirty days of the date of application. If the department
25 denies the application, the department shall include with the
26 denial a detailed description of the grounds for the denial,
27 including suggestions for removal of those grounds.

28 2. The department shall certify a person as a certified
29 capital company if the department determines that all of the
30 following conditions have been met and the application is
31 competitive with other applications:

32 a. The person is a partnership, corporation, trust, or
33 limited liability company, whether organized for profit or not
34 for profit, that has as its primary business activity the
35 investment of cash in qualified businesses.

1 b. The person has a net worth, at the time of application,
2 of at least seven hundred fifty thousand dollars and possesses
3 at least five million dollars in cash, cash equivalents, or
4 marketable securities. The person shall submit with the
5 initial application an audited balance sheet with an
6 unqualified opinion from an independent certified public
7 accountant as of a date not more than thirty-five days prior
8 to the date the application is submitted.

9 c. The directors, officers, general partners, trustees,
10 managers, members, or persons having a similar function are
11 familiar with the requirements of this division.

12 d. At least two officers, directors, general partners,
13 trustees, managers, or members each have at least four years
14 of experience in the venture capital industry.

15 e. The person has included, in any offering material
16 involving the sale of securities, the statements required
17 under section 15E.404, subsection 1.

18 f. The person has paid a nonrefundable application fee of
19 seven thousand five hundred dollars.

20 g. The person has not engaged in dishonest or unethical
21 practices as the department may define by rule adopted
22 pursuant to chapter 17A.

23 3. The department may certify a person as a certified
24 capital company if the company has been previously qualified
25 under section 15E.208, has a net worth at the time of the
26 application of at least five hundred thousand dollars, and has
27 at least five hundred thousand dollars in cash, cash
28 equivalents, or marketable securities. The company must
29 include in any offering material involving the sale of
30 securities relying upon this section the statements required
31 under section 15E.404, subsection 1.

32 4. The department shall adopt rules pursuant to chapter
33 17A relating to procedures for defining conflicts of
34 interests.

35 Sec. 4. NEW SECTION. 15E.404 INVESTMENTS IN CERTIFIED

1 CAPITAL COMPANIES.

2 1. Any offering material involving the sale of securities
3 of a certified capital company shall include all of the
4 following statements:

5 a. "By authorizing the formation of a certified capital
6 company, the state does not necessarily endorse the quality of
7 management or the potential for earnings of the company and is
8 not liable for damages or losses to a certified investor in
9 the certified capital company. Use of the word "certified" in
10 an offering is not a recommendation or endorsement of the
11 investment by the Department of Economic Development."

12 b. "Investments in a prospective certified capital company
13 prior to the time the company is certified are not eligible
14 for a certified capital company tax credit under section
15 15E.412 of the Iowa Code. Investments in a certified capital
16 company are not eligible for a certified capital company tax
17 credit under section 15E.412 of the Iowa Code, unless the
18 proposed investment is certified under section 15E.404,
19 subsection 2 of the Iowa Code, before the investment is made.
20 In the event that certain statutory provisions are violated,
21 the state may require forfeiture of unused certified capital
22 company tax credits and repayment of used certified capital
23 company tax credits."

24 2. Certification of capital investments shall occur
25 according to the following procedure:

26 a. Application for certification of a capital investment
27 shall be submitted by providing notice to the department on a
28 form prescribed by the department. The notice shall include
29 the name of the person applying for certification, the name of
30 the certified capital company, the amount of the proposed
31 investment, and any other information specified by the
32 department. The notice shall also include an undertaking by
33 the person to make the capital investment within five days
34 after the department notifies the person that the capital
35 investment has been certified.

1 b. The department may certify a capital investment under
2 this subsection only if, after the certification, the
3 department will not have certified a total of more than one
4 hundred million dollars in certified capital investments under
5 this subsection. The department shall not certify more than
6 twenty-five percent of the total certified capital investments
7 allowed under this paragraph for investments in a certified
8 capital company that has been previously qualified under
9 section 15E.208. A certified capital company, together with
10 its affiliates, shall not file applications on behalf of its
11 certified investors to make certified capital investments in
12 excess of the maximum amount of investments that may be
13 certified under this subsection.

14 c. Prior to the first day of the thirteenth month
15 beginning after the effective date of this Act, the department
16 shall not certify an investment under this subsection if,
17 after the certification, the certified investor, together with
18 all affiliates of the certified investor, would have invested
19 more than fifteen million dollars in certified capital
20 investments.

21 d. If, as a result of the limitations under paragraph "b"
22 or "c", the department does not certify the full amount
23 requested in applications for certified capital investments
24 submitted under paragraph "a", the department shall allocate
25 the amounts available for certification on a pro rata basis in
26 accordance with this paragraph. The pro rata allocation for
27 each certified investor shall be the product of both of the
28 following:

29 (1) A fraction, the numerator of which is the amount of
30 the certified capital company tax credit requested on behalf
31 of the certified investor and the denominator of which is the
32 total amount of all certified capital company tax credits
33 requested on behalf of all certified investors.

34 (2) The total amount of investments for which certified
35 capital tax credits may be allowed under paragraph "b".

1 3. An insurance company, group of insurance companies,
 2 affiliate of an insurance company, or group of such affiliates
 3 shall not beneficially own, directly or indirectly, whether
 4 through rights, options, convertible interests, or otherwise,
 5 ten percent or more of the equity securities in, be a general
 6 partner or manager of, or otherwise control the investments of
 7 a certified capital company. This subsection does not
 8 preclude such person from exercising such person's legal
 9 rights and remedies, including interim management of a
 10 certified capital company, in the event that a certified
 11 capital company is in default of its statutory or contractual
 12 obligations to such person.

13 4. Capital investments shall not be certified on behalf of
 14 the certified investors of a certified capital company unless
 15 the aggregate amount of capital certified on behalf of all of
 16 the certified investors of such certified capital company
 17 would be at least five million dollars, after giving effect to
 18 any allocation required by subsection 2, paragraph "d". Any
 19 capital investments that are not allocated to the certified
 20 investors of a certified capital company shall be reallocated
 21 to the other capital companies making applications for
 22 certified capital investments on the same day in accordance
 23 with the provisions of subsection 2, paragraph "d", as if the
 24 certified capital company which received no allocation
 25 pursuant to this subsection had never submitted applications
 26 for certified capital investments.

27 5. Capital investments shall not be certified on behalf of
 28 the certified investors of a certified capital company unless
 29 the certified capital company has received irrevocable written
 30 commitments from qualified investors stating that such
 31 qualified investors will invest amounts with the certified
 32 capital company which total at least fifty percent of the
 33 amount of capital investment for which the certified capital
 34 company receives certification. Such investments from
 35 qualified investors must be received within two years of the

1 date on which the certified capital company receives
2 certification from the department.

3 Sec. 5. NEW SECTION. 15E.405 QUALIFIED BUSINESSES.

4 1. A business is a qualified business if the business is
5 in need of venture capital and is unable to obtain sufficient
6 conventional financing, as defined by the department, and if
7 all of the following requirements are met at the time that a
8 certified capital company, or any affiliate of the certified
9 capital company, makes its first investment in the business:

10 a. The business is headquartered in this state and its
11 principal business operations are located in this state.

12 b. The business has no more than one hundred employees, at
13 least seventy-five percent of whom are employed in the state.

14 c. During the two most recent fiscal years of the
15 business, the business had, together with all of the
16 affiliates of the business, an average annual net income,
17 after federal income taxes and excluding any carryover losses,
18 of not more than five million dollars as determined in
19 accordance with generally accepted accounting principles.

20 d. The business has, together with the affiliates of the
21 business, a net worth that is not in excess of fifteen million
22 dollars.

23 e. The business is not predominately engaged in the
24 provision of professional services provided by accountants,
25 attorneys, or physicians.

26 f. The business is not engaged in the development of real
27 estate for resale.

28 g. The business is not engaged in banking or lending and
29 does not make any loans to, or investments in, certified
30 capital companies.

31 h. The business is predominantly engaged in any of the
32 following:

33 (1) Manufacturing, processing, or assembling products.

34 (2) Conducting research and development.

35 (3) Providing services.

1 i. It is the intent of the business to provide long-term
2 attractive compensation packages with many of the compensation
3 packages for owners and employees to be risk and venture-based
4 with a focus on future returns.

5 j. The business intends to retain its operations and
6 employees in the state after receipt of investments from a
7 certified capital company.

8 2. A certified capital company may, prior to making an
9 investment in a specified business, request a written opinion
10 from the department that a business in which it proposes to
11 invest is a qualified business. If the department determines
12 that the business meets the requirements under subsection 1,
13 the department shall issue a written opinion stating that the
14 business is a qualified business. If the department
15 determines that the business in which the certified capital
16 company proposes to invest does not meet the requirements
17 under subsection 1, paragraphs "a" through "j", the department
18 may consider the business a qualified business and approve the
19 investment if the department determines that the proposed
20 investment will further economic development in this state.

21 3. Upon approval by the department, any business which is
22 classified as a qualified business at the time of the first
23 investment in the business by a certified capital company
24 shall remain classified as a qualified business and may
25 receive follow-on investments from any certified capital
26 company or any of its affiliates, and the follow-on
27 investments shall be qualified investments even though the
28 business does not meet the definition of a qualified business
29 at the time of such follow-on investments, provided that at
30 the time of the follow-on investment the business certifies in
31 writing that it is unable to obtain conventional financing,
32 which means that the business has failed in an attempt to
33 obtain funding for a loan from a bank or other commercial
34 lender or that the business cannot reasonably be expected to
35 qualify for such financing under the standards of commercial

1 lending.

2 Sec. 6. NEW SECTION. 15E.406 OPERATION OF CERTIFIED
3 CAPITAL COMPANIES.

4 1. In order for a certified capital company to prevent
5 disqualification of an investment pool under section 15E.409,
6 the certified capital company shall ensure that the investment
7 pool makes qualified investments in accordance with the
8 schedule under subsection 2. An investment is a qualified
9 investment if the investment meets all of the following
10 requirements:

11 a. The investment is a cash investment in a qualified
12 business for the purchase of any of the following:

13 (1) An equity security of the qualified business.

14 (2) A debt security of the qualified business if the debt
15 has a maturity of at least five years and if one of the
16 following conditions is met:

17 (a) The debt is unsecured.

18 (b) The debt is convertible into equity securities or
19 equity participation instruments such as options or warrants.

20 b. As a condition of the investment, the qualified
21 business agrees not to use the proceeds from the investment
22 for the purpose of relocating its operations.

23 c. As a condition of the investment, the qualified
24 business agrees, as long as the certified capital company
25 continues to hold the investment, not to relocate its
26 headquarters out of this state.

27 d. As a condition of the investment, the qualified
28 business agrees, as long as the certified capital company
29 continues to hold the investment, to maintain at least
30 seventy-five percent of its employees in this state.

31 e. As a condition of the investment, the qualified
32 business agrees, as long as the certified capital company
33 continues to hold the investment, to maintain at least
34 seventy-five percent of its employees at work sites that were
35 maintained by the qualified business at the time that the

1 investment was made, unless the qualified business obtains an
2 exemption from the department under this paragraph. The
3 department may grant an exemption unless it determines that
4 the qualified business is locating the employees at new sites
5 to take advantage of lower wage rates in the areas where the
6 new sites are located.

7 f. As an alternative to a qualified business making the
8 agreements set forth in paragraphs "c", "d", and "e", a
9 certified capital company making the investment may agree that
10 if, during the period in which its investment in such
11 qualified business is outstanding or within three months after
12 the termination or repayment of such investment, the qualified
13 business relocates its headquarters outside of this state or
14 fails to continue to satisfy the conditions set forth in
15 paragraph "d" or "e", then the cumulative amount of qualified
16 investments for the investment pool from which such qualified
17 investments were made shall be reduced by the amount of the
18 qualified investment in such business for the purposes of
19 section 15E.408 only, unless either of the following apply:

20 (1) The certified capital company invests an amount, at
21 least equal to the investment within six months of the
22 relocation or failure to satisfy the conditions set forth in
23 paragraph "d" or "e", as applicable.

24 (2) The qualified business demonstrates that it has
25 returned its headquarters to this state or has reestablished
26 compliance with the conditions set forth in paragraph "d" or
27 "e", as applicable, within three months of such relocation or
28 failure, as applicable.

29 2. a. A certified capital company shall ensure that each
30 of its investment pools makes qualified investments according
31 to the following schedule:

32 (1) Within two years after the investment date for a
33 particular investment pool, the certified capital company
34 shall have made qualified investments cumulatively equal to at
35 least twenty-five percent of the investment pool.

1 (2) Within three years after the investment date for a
2 particular investment pool, the certified capital company
3 shall have made qualified investments cumulatively equal to at
4 least forty percent of the investment pool.

5 (3) Within four years after the investment date for a
6 particular investment pool, the certified capital company
7 shall have made qualified investments cumulatively equal to at
8 least fifty percent of the investment pool with at least ten
9 percent of such qualified investments having been made in
10 targeted businesses.

11 (4) Within seven years after the investment date for a
12 particular investment pool, the certified capital company
13 shall have made qualified investments cumulatively equal to at
14 least one hundred percent of the investment pool with at least
15 ten percent of such qualified investments having been made in
16 targeted businesses.

17 b. The proceeds of all capital of a qualified investment
18 returned to a certified capital company by a qualified
19 business may be placed in new qualified investments, which
20 shall count toward the percentage requirements under paragraph
21 "a" and section 15E.408, subsection 2. The department shall
22 adopt rules that provide that proceeds from the sale of an
23 investment in a qualified business that are reinvested in that
24 qualified business, or an affiliate of the qualified business,
25 shall be only partially counted toward the percentage
26 requirements under paragraph "a", section 15E.408, subsection
27 2, and section 15E.409, subsection 4, paragraph "a",
28 subparagraph (2).

29 3. All certified capital investments in a certified
30 capital company that are not invested in qualified investments
31 may be held or invested by the certified capital company as it
32 considers appropriate, except that a certified capital company
33 shall not invest certified capital investments in an insurance
34 company or in an affiliate of an insurance company.

35 4. A certified capital company shall not make a qualified

1 investment in a person if, at the time of the investment, more
2 than fifteen percent of the total certified capital of the
3 certified capital company would be invested in that person and
4 affiliates of that person.

5 5. A certified capital company shall not be managed or
6 controlled by, or have a general partner that is, an insurance
7 company or an affiliate of an insurance company.

8 Sec. 7. NEW SECTION. 15E.407 REPORTING REQUIREMENTS AND
9 FEES.

10 1. As soon as practical after the receipt of a certified
11 capital investment, a certified capital company shall report
12 all of the following to the department:

13 a. The name of the certified investor from which the
14 certified capital investment was received, including the
15 certified investor's tax identification number.

16 b. The amount of the certified capital investment.

17 c. The date on which the certified capital investment was
18 received by the certified capital company.

19 2. As soon as practical after the receipt of information
20 by the certified capital company that a qualified business has
21 violated an agreement made under section 15E.406, subsection
22 1, paragraphs "b" through "e", the certified capital company
23 shall notify the department of the violation and the facts
24 giving rise to the violation.

25 3. On or before January 31 each year, a certified capital
26 company shall report all of the following to the department:

27 a. The amount of the certified capital company's certified
28 capital at the end of the preceding calendar year.

29 b. Whether the certified capital company has invested more
30 than fifteen percent of its total certified capital in any one
31 person.

32 c. All qualified investments that the certified capital
33 company has made during the previous calendar year and the
34 investment pool from which each qualified investment was made.

35 4. Within ninety days of the end of the certified capital

1 company's fiscal year, the certified capital company shall
2 provide to the department a copy of its annual audited
3 financial statements, including the opinion of an independent
4 certified public accountant. The audit shall address the
5 methods of operation and conduct of the business of the
6 certified capital company to determine whether the certified
7 capital company is complying with this division and the rules
8 adopted pursuant to this division, including whether certified
9 capital investments have been invested in the manner required
10 under section 15E.406. The financial statements provided
11 under this subsection shall be segregated by investment pool
12 and shall be separately audited on that basis to allow the
13 department to determine whether the certified capital company
14 is in compliance with section 15E.406, subsection 2.

15 5. On or before January 31 of each year, a certified
16 capital company shall pay a nonrefundable certification fee of
17 five thousand dollars to the department, unless January 31 is
18 within six months of the date on which the certified capital
19 company was certified under section 15E.403. If a certified
20 capital company fails to pay its certification fee on or
21 before that date, the company must pay, in addition to the
22 certification fee, a late fee of five thousand dollars to
23 continue its certification.

24 6. If the department determines that a document submitted
25 by a certified capital company under this section contains a
26 trade secret as defined in section 550.2, the information
27 shall be treated as a confidential trade secret not subject to
28 release under section 22.7.

29 7. The department may impose an administrative penalty on
30 a certified capital company that violates this division. The
31 amount of the penalty shall not exceed twenty-five thousand
32 dollars, and each day a violation continues or occurs is a
33 separate violation for the purpose of imposing a penalty. The
34 amount of the penalty shall be based on all of the following:

35 a. The seriousness of the violation, including the nature,

1 circumstances, extent, and gravity of the violation.

2 b. The economic harm caused by the violation.

3 c. The history of previous violations.

4 d. The amount necessary to deter a future violation.

5 e. Efforts to correct the violation.

6 f. Any other matter that justice may require.

7 A proceeding to impose the penalty is considered to be a
8 contested case proceeding under chapter 17A.

9 Sec. 8. NEW SECTION. 15E.408 DISTRIBUTIONS.

10 1. A certified capital company may make a distribution or
11 payment only if one of the following conditions is met:

12 a. The distribution or payment is a qualified
13 distribution.

14 b. The department made a written determination that the
15 distribution or payment may be made without adversely
16 affecting the ability of the certified capital company to make
17 qualified investments in an amount cumulatively equal in the
18 aggregate to one hundred percent of the certified capital
19 investment in the investment pool from which the distribution
20 or payment is to be made.

21 c. The certified capital company has made qualified
22 investments in an amount cumulatively equal in the aggregate
23 to one hundred percent of the certified capital investments in
24 the investment pool and has made investments in targeted
25 businesses equal in the aggregate to at least ten percent of
26 the certified capital investments in the investment pool.

27 d. The distribution or payment is payment of principal or
28 interest owed to a debt holder of a certified capital company,
29 even if the debt holder is also a holder of equity and even if
30 the indebtedness is a certified capital investment.

31 2. At the time of making such a distribution after
32 satisfying the requirements of subsection 1, the certified
33 capital company shall pay to the department an amount equal to
34 ten percent of all equity distributions which would be in
35 excess of a fifteen percent return on investment on the

1 certified investment capital invested in the certified capital
2 company.

3 Sec. 9. NEW SECTION. 15E.409 COMPLIANCE REVIEWS --
4 DECERTIFICATION -- DISQUALIFICATION.

5 1. The department shall conduct an annual review of each
6 certified capital company to determine if the certified
7 capital company is complying with the requirements of this
8 division, to advise the certified capital company regarding
9 the status of its investments as qualified investments, and to
10 ensure that an investment has not been made in violation of
11 this division. The cost of the annual review shall be paid by
12 each certified capital company according to a reasonable fee
13 schedule adopted by the department.

14 2. Any material violation of section 15E.406, subsection
15 2, is a ground for disqualification of the noncomplying
16 investment pool. If the department determines that the
17 certified capital company is not in compliance with section
18 15E.406, subsection 2, with respect to an investment pool, the
19 department shall send a written notice to the certified
20 capital company and the department of revenue stating that the
21 investment pool has been disqualified.

22 3. Any material violation of section 15E.406, subsections
23 2 through 4, or section 15E.407, subsections 1 through 4, is a
24 ground for decertification of the noncomplying certified
25 capital company. If the department determines that the
26 certified capital company is not in compliance with section
27 15E.406, subsections 2 through 4, or section 15E.407,
28 subsections 1 through 4, the department shall send a written
29 notice to the certified capital company that the certified
30 capital company may be subject to decertification in one
31 hundred twenty days from the date on which the notice was
32 mailed, unless the certified capital company brings itself
33 into full compliance. If at the end of the one-hundred-
34 twenty-day period the certified capital company has not
35 brought itself into full compliance, the department shall send

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1 a notice to the certified capital company and the commissioner
2 of insurance stating that the certified capital company has
3 been decertified.

4 4. a. A certified capital company may voluntarily
5 decertify itself as a certified capital company if any of the
6 following conditions are met:

7 (1) It has been at least ten years since the last
8 certified capital investment was made in the certified capital
9 company.

10 (2) The certified capital company has made qualified
11 investments in an amount cumulatively equal to at least one
12 hundred percent of the certified capital investment in the
13 certified capital company.

14 b. A certified capital company wishing to decertify itself
15 under this subsection shall send a notice to the department
16 certifying that the certified capital company is eligible for
17 decertification under paragraph "a". The decertification is
18 effective on the date that the notice under this paragraph is
19 received by the department.

20 5. Approval by the department of a voluntary
21 decertification of a certified capital company shall be
22 required prior to the voluntary decertification if the
23 decertification occurs within five years from the date the
24 certified capital company was originally certified.

25 6. Decertification of a certified capital company or
26 disqualification of an investment pool has the effects
27 specified in section 15E.412.

28 7. The department shall notify a certified investor when
29 the certified capital company tax credit arising from a
30 certified investment is no longer subject to recapture and
31 forfeiture under section 15E.412.

32 Sec. 10. NEW SECTION. 15E.410 DEPARTMENT EVALUATION OF
33 THE PROGRAM.

34 Beginning on January 31, 2008, and on every January 31 of
35 each even-numbered year thereafter, the department shall

1 submit a report to the general assembly regarding the program
2 under this division. The report shall include all of the
3 following:

4 1. The total amount of certified capital investments made
5 during the previous two calendar years, as well as the total
6 amount of certified capital investments made since July 1,
7 2006.

8 2. Statistical information on the qualified investments
9 made by certified capital companies during the previous two
10 calendar years.

11 3. The department's assessment of the number of jobs
12 created in this state during the previous two calendar years
13 as a result of the certified capital company program under
14 this division.

15 Sec. 11. NEW SECTION. 15E.411 RULES.

16 The department shall adopt rules pursuant to chapter 17A
17 necessary to administer this division.

18 Sec. 12. NEW SECTION. 15E.412 CERTIFIED CAPITAL COMPANY
19 INSURANCE PREMIUM TAX CREDIT.

20 1. A certified investor which is an insurance company
21 organized under the laws of this state or admitted to do
22 business in this state shall earn, two years after it makes a
23 certified capital investment, a vested tax credit against the
24 insurance premium tax liability of the certified investor
25 under chapter 432, or similar taxes, equal to one hundred
26 percent of the certified investor's certified capital
27 investment. A certified investor shall be entitled to claim
28 up to ten percent of the vested premium tax credit in any
29 taxable year of the certified investor. The credit to be
30 applied against a certified investor's premium tax liability
31 in any one year shall not exceed such certified investor's
32 premium tax liability for such taxable year. Any credit in
33 excess of the tax liability for a taxable year may be credited
34 to the tax liability for succeeding taxable years until
35 depleted.

1 2. If a certified capital company is decertified, or an
 2 investment pool is disqualified, under section 15E.409, before
 3 the certified capital company fulfills the investment
 4 requirement under section 15E.406, subsection 2, paragraph
 5 "a", subparagraph (1), with respect to the investment pool, a
 6 certified investor that has received a tax credit under this
 7 section shall be subject to a recapture tax equal to the tax
 8 credit claimed with respect to the investment pool. A
 9 certified investor shall not claim any remaining tax credits
 10 with respect to that investment pool.

11 3. If a certified capital company fulfills the investment
 12 requirement under section 15E.406, subsection 2, paragraph
 13 "a", subparagraph (1), with respect to the investment pool but
 14 the certified capital company is decertified, or an investment
 15 pool is disqualified under section 15E.409, before the
 16 certified capital company fulfills the investment requirement
 17 under section 15E.406, subsection 2, paragraph "a",
 18 subparagraph (2), for that investment pool, a certified
 19 investor that has received a tax credit under this section
 20 with respect to that investment pool shall be subject to a
 21 recapture tax equivalent to all tax credits claimed under this
 22 section for taxable years after the taxable year that includes
 23 the second anniversary of the investment date of the
 24 investment pool. A certified investor shall not claim any
 25 remaining tax credits for taxable years after the taxable year
 26 that includes the second anniversary of the investment date of
 27 the investment pool.

28 4. If a certified capital company fulfills the investment
 29 requirement under section 15E.406, subsection 2, paragraph
 30 "a", subparagraphs (1) and (2), with respect to the investment
 31 pool but the certified capital company is decertified, or an
 32 investment pool is disqualified under section 15E.409, before
 33 the certified capital company fulfills the investment
 34 requirement under section 15E.406, subsection 2, paragraph
 35 "a", subparagraph (3), for that investment pool, a certified

1 investor that has received a tax credit under this section
2 with respect to that investment pool shall be subject to a
3 recapture tax equivalent to all tax credits claimed under this
4 section for taxable years after the taxable year that includes
5 the third anniversary of the investment date of the investment
6 pool. A certified investor shall not claim any remaining tax
7 credits for taxable years after the taxable year that includes
8 the third anniversary of the investment date of the investment
9 pool.

10 5. If a certified capital company satisfies the investment
11 requirements under section 15E.406, subsection 2, paragraph
12 "a", with respect to the investment pool, but the certified
13 capital company is decertified, a certified investor that has
14 received a tax credit under this section with respect to that
15 investment pool shall not be subject to a recapture tax with
16 respect to the tax credits previously utilized or forfeit any
17 unused credits, provided that such decertification did not
18 occur prior to the fourth anniversary of the investment date
19 of the investment pool. If the decertification did occur
20 prior to the fourth anniversary of the investment date of the
21 investment pool, all tax credits claimed or to be claimed
22 prior to such anniversary shall not be subject to recapture or
23 forfeiture, but all credits to be taken after such anniversary
24 shall be forfeited.

25 6. A certified investor may sell a certified capital
26 company tax credit to another insurance company organized
27 under the laws of this state or admitted to do business in
28 this state if the certified investor notifies the department
29 of revenue of the sale and includes with the notification a
30 copy of the transfer documents.

31 7. Once a certified capital company has voluntarily
32 decertified all investment pools under its control, the
33 certified capital company shall not be subject to regulation
34 by the department. However, after a certified capital company
35 has voluntarily decertified, the department shall continue to

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1 monitor any qualified business which received an investment
 2 from the decertified certified capital company and make an
 3 annual report to the general assembly by January 31 of each
 4 year regarding the monitoring of qualified businesses. The
 5 report shall include the number of jobs created by the
 6 qualified business, the average wage of the jobs in that
 7 qualified business, and other useful information as deemed
 8 appropriate by the department which would illustrate the
 9 impact the business has on the economy of the state. The
 10 department shall continue to monitor and report to the general
 11 assembly on the qualified business until all tax credits have
 12 been claimed by the certified investors of that decertified
 13 certified capital company or ten years have elapsed from the
 14 date the decertified certified capital company was certified,
 15 whichever is longer.

16 EXPLANATION

17 This bill relates to certified capital companies and
 18 providing for a certified capital company insurance premium
 19 tax credit.

20 The bill provides that a person applying to become a
 21 certified capital company shall submit an application to the
 22 department of economic development. The bill requires the
 23 department to certify a person as a certified capital company
 24 if the department determines that the person is a partnership,
 25 corporation, trust, or limited liability company, whether
 26 organized for profit or not for profit, that has as its
 27 primary business activity the investment of cash in qualified
 28 businesses; the person has a net worth, at the time of
 29 application, of at least \$750,000 and has at least \$5 million
 30 in cash, cash equivalents, or marketable securities; the
 31 directors, officers, general partners, trustees, managers,
 32 members, or persons having a similar function are familiar
 33 with the requirements of the bill; at least two officers,
 34 directors, general partners, trustees, managers, or members
 35 each have at least four years of experience in the venture

1 capital industry; proper notice requirements have been met in
2 any offering material involving the sale of securities; the
3 person has paid a nonrefundable application fee; and the
4 person has not engaged in dishonest or unethical practices.
5 The bill provides that the department may certify an Iowa
6 agricultural industry finance corporation as a certified
7 capital company provided that other criteria are met.

8 The bill provides that a certified capital investment is an
9 investment in a certified capital company that is certified by
10 the department and fully funds either the investor's equity
11 interest in a certified capital company or a qualified debt
12 instrument that a certified capital company issues. The bill
13 provides that the department shall not certify a total of more
14 than \$100 million in certified capital investments. The bill
15 provides that the department shall not certify more than 25
16 percent of the total certified capital investments allowed for
17 investments in an agricultural industry finance corporation
18 which is a certified capital company. The bill provides that
19 prior to the first day of the 13th month beginning after the
20 effective date of the bill, a certified investor, together
21 with all affiliates of the certified investor, shall not have
22 invested more than \$15 million in certified capital
23 investments. The bill provides that, if, as a result of the
24 investment limitations, the department does not certify the
25 full amount requested in applications for certified capital
26 investments, the department shall allocate the amounts
27 available for certification on a pro rata basis. The bill
28 provides that an insurance company, group of insurance
29 companies, affiliate of an insurance company, or group of such
30 affiliates shall not beneficially own 10 percent or more of
31 the equity securities in, be a general partner or manager of,
32 or otherwise control the investments of a certified capital
33 company. The bill provides requirements for certification of
34 capital investments relating to the aggregate amount of
35 capital certified on behalf of all of the certified investors

1 of a certified capital company.

2 The bill provides a business is a qualified business if the
3 business is in need of venture capital and is unable to obtain
4 sufficient conventional financing, the business is
5 headquartered in this state and its principal business
6 operations are located in this state, the business has no more
7 than 100 employees, at least 75 percent of whom are employed
8 in the state, the business has an average annual net income of
9 not more than \$5 million, the business has a net worth that is
10 not in excess of \$15 million, the business is not
11 predominately engaged in the provision of professional
12 services provided by accountants, attorneys, or physicians,
13 the business is not engaged in the development of real estate
14 for resale, the business is not engaged in banking or lending
15 and does not make any loans to, or investments in, certified
16 capital companies, the business is predominantly engaged in
17 certain industries, it is the intent of the business to
18 provide long-term attractive compensation packages with many
19 of the compensation packages, and the business intends to
20 retain its operations and employees in the state after receipt
21 of investments from a certified capital company. The bill
22 allows certain qualified businesses to receive follow-on
23 investments under certain circumstances.

24 The bill provides that an investment is a qualified
25 investment if the investment is a cash investment which meets
26 certain requirements, the qualified business agrees not to use
27 the proceeds from the investment for the purpose of relocating
28 its operations, and the qualified business agrees, as long as
29 the certified capital company continues to hold the
30 investment, to keep its headquarters in this state, maintain
31 at least 75 percent of its employees in this state, and
32 maintain at least 75 percent of its employees at work sites
33 that were maintained by the qualified business at the time
34 that the investment was made, unless certain circumstances
35 arise. The bill also provides alternatives to certain

1 requirements. The bill provides a schedule regarding the
2 percentage of a certified capital company's investment pool
3 that must be in qualified investments.

4 The bill requires a certified capital company to meet
5 certain reporting requirements after the receipt of a
6 certified capital investment, after the receipt of information
7 by the certified capital company that a qualified business has
8 violated an agreement, and regarding annual activities and
9 audits. The bill allows the department to impose an
10 administrative penalty on a certified capital company that
11 violates the provisions of the bill. The bill provides that
12 the amount of the penalty shall not exceed \$25,000, and each
13 day a violation continues or occurs is a separate violation
14 for the purpose of imposing a penalty.

15 The bill provides conditions under which a certified
16 capital company may make distributions. The bill requires the
17 department to conduct an annual review of each certified
18 capital company. The bill provides for the voluntary and
19 involuntary decertification of a certified capital company and
20 the disqualification of a noncomplying investment pool. The
21 bill requires the department to file a report with the general
22 assembly every two years regarding certified capital companies
23 and the department's assessment of the impact of certified
24 capital companies.

25 The bill allows a certified investor to earn, two years
26 after it makes a certified capital investment, a vested tax
27 credit against the insurance premium tax liability of the
28 certified investor equal to the total amount of the certified
29 investor's certified capital investment. The bill provides
30 that a certified investor shall be entitled to claim up to 10
31 percent of the vested premium tax credit in any taxable year
32 of the certified investor. The bill provides that the credit
33 to be applied against a certified investor's premium tax
34 liability in any one year shall not exceed such certified
35 investor's premium tax liability for such taxable year and any

1 credit in excess of the tax liability for a taxable year may
 2 be credited to the tax liability for succeeding taxable years
 3 until depleted. The bill provides for a recapture tax in the
 4 case of decertification of a certified capital company or
 5 disqualification of an investment pool. The bill allows for
 6 the sale of a certified capital company tax credit. The bill
 7 provides that once a certified capital company has voluntarily
 8 decertified all investment pools under its control, the
 9 certified capital company shall not be subject to regulation
 10 by the department; however, the department shall continue to
 11 monitor any qualified business which received an investment
 12 from the decertified certified capital company and make an
 13 annual report to the general assembly by January 31 of each
 14 year regarding the monitoring of qualified businesses.

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