

House Study Bill 213

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 tax credits for equity investments in
2 qualifying businesses or community-based seed capital funds.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
4 TLSB 1984YC 81
5 tm/pj/5

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1 1 Section 1. Section 15E.43, subsection 4, Code 2005, is
1 2 amended to read as follows:
1 3 4. The aggregate amount of tax credits issued pursuant to
1 4 this division shall not exceed a total of ten million dollars.
1 5 The total amount of tax credits issued during the fiscal year
1 6 beginning July 1, 2002, shall not exceed three million
1 7 dollars. The total amount of tax credits issued during the
1 8 fiscal year beginning July 1, 2003, shall not exceed three
1 9 million dollars. The total amount of tax credits issued
1 10 during the fiscal year beginning July 1, 2004, shall not
1 11 exceed four million dollars. Any amount of the maximum
1 12 aggregate limit of tax credits that have not been issued by
1 13 June 30, 2005, may be issued in any subsequent fiscal year.
1 14 Not more than three million dollars of tax credits may be
1 15 issued in any one subsequent fiscal year.
1 16 Sec. 2. Section 15E.44, subsection 2, paragraph b, Code
1 17 2005, is amended to read as follows:
1 18 b. The business has been in operation for ~~three~~ six years
1 19 or less.
1 20 Sec. 3. Section 15E.45, subsection 2, paragraph b, Code
1 21 2005, is amended to read as follows:
1 22 b. The fund has, on or after January 1, 2002, a total of
1 23 both capital commitments from investors and investments in
1 24 qualifying businesses of at least one hundred twenty-five
1 25 thousand dollars, but not more than three million dollars.
1 26 However, if a fund is either a rural business investment
1 27 company under the rural business investment program of the
1 28 federal Farm Security and Rural Investment Act of 2002, Pub.
1 29 L. No. 107-171, or an Iowa-based seed capital fund with at
1 30 least forty percent of its committed capital subscribed by
1 31 community-based seed capital funds, the fund may qualify
1 32 notwithstanding having capital in excess of the limits set
1 33 forth in this paragraph as long as the fund otherwise meets
1 34 the requirements of this subsection.
1 35 Sec. 4. Section 15E.45, subsections 6, 7, and 8, Code
2 1 2005, are amended to read as follows:
2 2 6. In the event that a community-based seed capital fund
2 3 fails to meet or maintain any requirement set forth in this
2 4 section, or in the event that at least thirty-three percent of
2 5 the invested capital of the community-based seed capital fund
2 6 has not been invested at least thirty-three percent of its
2 7 invested capital in one or more separate qualifying
2 8 businesses, measured at the end of the ~~thirty-sixth~~ forty-
2 9 eighth month after commencing the fund's investing activities,
2 10 the board shall rescind any tax credit certificates issued to
2 11 limited partners or members and shall notify the department of
2 12 revenue that it has done so, and the tax credit certificates
2 13 shall be null and void. However, a community-based seed
2 14 capital fund may apply to the board for a one-year waiver of
2 15 the requirements of this subsection.
2 16 7. An investor in a community-based seed capital fund
2 17 shall receive a tax credit pursuant to this division only for
2 18 the investor's investment in the community-based seed capital

2 19 fund and shall not receive any additional tax credit for the
2 20 investor's share of investments ~~in a qualifying business~~ made
2 21 by the community-based seed capital fund ~~in a qualifying~~
2 22 ~~business or in an Iowa-based seed capital fund with at least~~
2 23 ~~forty percent of its committed capital subscribed by~~
2 24 ~~community-based seed capital funds.~~ However, an investor in a
2 25 community-based seed capital fund may receive a tax credit
2 26 under this division with respect to a separate direct
2 27 investment made by the investor in the same qualifying
2 28 business in which the community-based seed capital fund
2 29 invests.
2 30 8. A community-based seed capital fund shall not invest in
2 31 the Iowa fund of funds, if organized pursuant to section
2 32 15E.65, ~~but may invest up to sixty percent of its committed~~
2 33 ~~capital in an Iowa-based seed capital fund with at least forty~~
2 34 ~~percent of its committed capital subscribed by community-~~
2 35 ~~based seed capital funds.~~

3 1 EXPLANATION

3 2 This bill relates to tax credits for equity investments in
3 3 qualifying businesses or community-based seed capital funds.
3 4 Currently, the aggregate amount of tax credits issued is
3 5 limited to \$10 million during the fiscal period beginning July
3 6 1, 2002, and ending June 30, 2005. The bill provides that any
3 7 amount of the maximum aggregate limit of tax credits that have
3 8 not been issued by June 30, 2005, may be issued in any
3 9 subsequent fiscal year. The bill provides that not more than
3 10 \$3 million of tax credits may be issued in any one subsequent
3 11 fiscal year.

3 12 Currently, certain criteria must be met for a business to
3 13 be a qualifying business that may receive investments that are
3 14 eligible for tax credits. One of the criteria is that the
3 15 business must have been in operation for three years or less.
3 16 The bill changes the three years to six years.

3 17 Currently, there are capital commitment limits for
3 18 community-based seed capital funds and the requirements may be
3 19 waived if the fund is a rural business investment company
3 20 under the rural business investment program of the federal
3 21 Farm Security and Rural Investment Act of 2002. The bill
3 22 provides that the capital commitment requirements may also be
3 23 waived if the fund is an Iowa-based seed capital fund with at
3 24 least 40 percent of its committed capital subscribed by
3 25 community-based seed capital funds.

3 26 Currently, if a community-based seed capital fund has not
3 27 invested at least 33 percent of its invested capital in one or
3 28 more separate qualifying businesses, measured at the end of
3 29 the 36th month after commencing the fund's investing
3 30 activities, tax credit certificates issued for investments in
3 31 the fund may be rescinded. The bill changes the measurement
3 32 period from the 36th month to the 48th month.

3 33 Currently, an investor in a community-based seed capital
3 34 fund only receives a tax credit for the investor's investment
3 35 in the fund and cannot receive any additional tax credit for
4 1 the investor's share of investments in a qualifying business.
4 2 The bill provides that, in addition, the investor shall not
4 3 receive an additional tax credit for the investor's share of
4 4 investments in an Iowa-based seed capital fund with at least
4 5 40 percent of its committed capital subscribed by community=
4 6 based seed capital funds.

4 7 Currently, a community-based seed capital fund shall not
4 8 invest in the Iowa fund of funds. The bill provides, however,
4 9 that a community-based seed capital fund may invest up to 60
4 10 percent of its committed capital in an Iowa-based seed capital
4 11 fund with at least 40 percent of its committed capital
4 12 subscribed by community-based seed capital funds.

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