

Senate Study Bill 1064

SENATE FILE _____
BY (PROPOSED COMMITTEE ON
ECONOMIC GROWTH BILL
BY CO=CHAIRPERSON BRUNKHORST)

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

A BILL FOR

1 An Act relating to tax credit certificates issued by the Iowa
2 capital investment board.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
4 TLSB 1872XC 81
5 tm/sh/8

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1 1 Section 1. Section 15E.63, subsections 6 and 7, Code 2005,
1 2 are amended to read as follows:
1 3 6. The board shall, in cooperation with the department of
1 4 revenue, establish criteria and procedures for the allocation
1 5 and issuance of tax credits to designated investors by means
1 6 of certificates issued by the board. The criteria shall
1 7 include the contingencies that must be met for a certificate
1 8 to be redeemable by a designated investor or transferee in
1 9 order to receive a tax credit. The contingencies to
1 10 redemption shall be tied to the scheduled rates of return ~~and~~

~~1 11 scheduled redemptions~~ of equity interests purchased by
1 12 designated investors in the Iowa fund of funds. The
1 13 procedures established by the board, in cooperation with the
1 14 department of revenue, shall relate to the procedures for the
1 15 issuance of the certificates and the related tax credits, for
1 16 the transfer of a certificate and related tax credit by a
1 17 designated investor, and for the redemption of a certificate
1 18 and related tax credit by a designated investor or transferee.
1 19 The board shall also establish criteria and procedures for
1 20 assessing the likelihood of future certificate redemptions by
1 21 designated investors and transferees, including, without
1 22 limitation, criteria and procedures for evaluating the value
1 23 of investments made by the Iowa fund of funds and the returns
1 24 from the Iowa fund of funds.

1 25 7. Pursuant to section 15E.66, the board shall issue
1 26 certificates which may be redeemable for tax credits to
1 27 provide incentives to designated investors to make equity
1 28 investments in the Iowa fund of funds. The board shall issue
1 29 the certificates so that not more than twenty million dollars
1 30 of tax credits may be initially redeemable in any fiscal year.
1 31 The board shall indicate on the tax certificate the principal
1 32 amount of the tax credit and the ~~taxable year or years for~~
1 33 ~~date or dates on~~ which the credit may be first claimed.

1 34 Sec. 2. Section 15E.65, subsection 2, paragraph a, Code
1 35 2005, is amended to read as follows:

2 1 a. The Iowa fund of funds shall be organized as a private,
2 2 for-profit, limited partnership or limited liability company
2 3 under Iowa law pursuant to which the Iowa capital investment
2 4 corporation shall be the general partner or manager. The
2 5 entity shall be organized so as to provide for equity
2 6 interests for designated investors which provide for a
2 7 designated scheduled rate of return ~~and a scheduled redemption~~
~~2 8 which shall occur not less than five years following the~~
~~2 9 issuance of such equity interests.~~ The interest of the Iowa
2 10 capital investment corporation in the Iowa fund of funds shall
2 11 be to serve as general partner or manager and to be paid a
2 12 management fee for the service as provided in section 15E.64,
2 13 subsection 8, and to receive investment returns of the Iowa
2 14 fund of funds in excess of those payable to designated
2 15 investors. Any returns in excess of those payable to
2 16 designated investors shall be reinvested by the Iowa capital

2 17 investment corporation by being held in the Iowa fund of funds
2 18 as a revolving fund for reinvestment in venture capital funds
2 19 or investments until the termination of the Iowa fund of
2 20 funds. Any returns received from these reinvestments shall be
2 21 deposited in the revolving fund.

2 22 Sec. 3. Section 15E.66, subsections 1, 2, 3, and 5, Code
2 23 2005, are amended to read as follows:

2 24 1. The board may issue certificates and related tax
2 25 credits to designated investors which, if redeemed for the
2 26 maximum possible amount, shall not exceed a total aggregate of
2 27 one hundred million dollars of tax credits. The certificates
2 28 shall be issued contemporaneously with ~~an investment a~~
2 29 ~~commitment to invest~~ in the Iowa fund of funds by a designated
2 30 investor. A certificate issued by the board shall have a
2 31 specific ~~calendar year~~ maturity date or dates designated by
2 32 the board of ~~not less than five years after the date of~~
2 33 ~~issuance and shall be redeemable on a schedule similar to the~~
2 34 ~~scheduled redemption of investments by designated investors~~
2 35 only in accordance with the contingencies reflected on the
3 1 certificate or incorporated therein by reference. A

3 2 certificate and the related tax credit shall be transferable
3 3 by the designated investor. A tax credit shall not be claimed
3 4 or redeemed except by a designated investor or transferee in
3 5 accordance with the terms of a certificate from the board. A
3 6 tax credit shall not be claimed for a tax year that begins
3 7 during earlier than the calendar year maturity date or dates
3 8 stated on the certificate. An individual may claim the credit
3 9 of a partnership, limited liability company, S corporation,
3 10 estate, or trust electing to have the income taxed directly to
3 11 the individual. The amount claimed by the individual shall be
3 12 based upon the pro rata share of the individual's earnings
3 13 from the partnership, limited liability company, S
3 14 corporation, estate, or trust. Any tax credit in excess of
3 15 the taxpayer's tax liability for the tax year may be credited
3 16 to the tax liability for the following seven years, or until
3 17 depleted, whichever is earlier.

3 18 2. The board shall certify the maximum amount of a tax
3 19 credit which could be issued to a designated investor and
3 20 identify the specific ~~calendar year~~ earliest date or dates the
3 21 certificate may be redeemed pursuant to this division. The
3 22 amount of the tax credit shall be limited to an amount
3 23 equivalent to any difference between the scheduled aggregate
3 24 return to the designated investor at rates of return
3 25 authorized by the board and aggregate actual return received
3 26 by the designated investor and any predecessor in interest of
3 27 capital and interest on the capital. The rates, whether fixed
3 28 rates or variable rates, shall be determined pursuant to a
3 29 formula stipulated in the certificate or incorporated therein
3 30 by reference. The board shall clearly indicate on the
3 31 certificate, or incorporate therein by reference, the
3 32 schedule, the amount of equity investment, the calculation
3 33 formula for determining the scheduled aggregate return on
3 34 invested capital, and the calculation formula for determining
3 35 the amount of the tax credit that may be claimed. ~~Once moneys~~
4 1 ~~are invested by issued to~~ a designated investor, ~~the a~~
4 2 certificate shall be binding on the board and the department
4 3 of revenue and shall not be modified, terminated, or
4 4 rescinded.

4 5 3. If a designated investor or transferee elects to redeem
4 6 a certificate, the certificate shall not be redeemed ~~on June~~
4 7 ~~30 of prior to the calendar year~~ maturity date or dates stated
4 8 on the certificate. At the time of redemption, the board
4 9 shall determine the amount of the tax credit that may be
4 10 claimed by the designated investor based upon the returns
4 11 received by the designated investor and its predecessors in
4 12 interest and the provisions of the certificate. The board
4 13 shall issue a verification to the department of revenue
4 14 setting forth the maximum tax credit which can be claimed by
4 15 the designated investor with respect to the redemption of the
4 16 certificate.

4 17 5. The board shall issue the tax credits in such a manner
4 18 that not more than twenty million dollars of tax credits may
4 19 be initially redeemable in any fiscal year. The board shall
4 20 indicate on the tax certificate the principal amount of the
4 21 tax credit and the ~~taxable year or years for~~ maturity date or
4 22 dates on which the credit may be first claimed.

4 23 EXPLANATION

4 24 This bill relates to tax credit certificates issued by the
4 25 Iowa capital investment board.

4 26 Currently, the contingencies to redemption of the tax
4 27 credit certificates are tied to the scheduled rates of return

4 28 and scheduled redemptions of equity interests purchased by
4 29 designated investors in the Iowa fund of funds. The bill
4 30 eliminates the requirement that contingencies to redemption be
4 31 tied to scheduled redemptions.

4 32 Currently, the tax credit certificates are issued
4 33 contemporaneously with an investment in the Iowa fund of
4 34 funds. The bill provides that the certificates shall be
4 35 issued contemporaneously with a commitment to invest in the
5 1 Iowa fund of funds.

5 2 The bill provides that a tax credit certificate issued by
5 3 the board may have more than one maturity date and eliminates
5 4 the requirement that the maturity date be not less than five
5 5 years after the date of issuance. The bill provides that a
5 6 tax credit certificate shall be redeemable only in accordance
5 7 with the contingencies reflected on the certificate or
5 8 incorporated therein by reference and eliminates the
5 9 requirement that the certificates shall be redeemable on a
5 10 schedule similar to the scheduled redemption of the
5 11 investments by designated investors.

5 12 The bill provides that a tax credit shall not be claimed
5 13 for a tax year that begins earlier than the maturity date or
5 14 dates stated in the certificate.

5 15 The bill provides that the board shall identify the
5 16 specific earliest date or dates the certificate may be
5 17 redeemed instead of identifying the specific calendar year.

5 18 Currently, a tax credit certificate is binding on the board
5 19 and the department of revenue once moneys are invested by a
5 20 designated investor. The bill provides that the certificate
5 21 is binding upon issuance to the designated investor.

5 22 Currently, if a designated investor elects to redeem a
5 23 certificate, the certificate must be redeemed on June 30 of
5 24 the calendar year maturity date stated on the certificate.

5 25 The bill provides that the designated investor or a
5 26 transferee, upon election to redeem, shall not redeem the
5 27 certificate prior to the maturity date or dates stated on the
5 28 certificate.

5 29 The bill requires the board to identify on the certificate
5 30 the maturity date or dates on which the credit may be first
5 31 claimed.

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