

House File 2359 - Introduced

HOUSE FILE 2359
BY COMMITTEE ON ECONOMIC
GROWTH/REBUILD IOWA

(SUCCESSOR TO HSB 604)

A BILL FOR

1 An Act relating to economic development by providing an
2 adjustment to net income for certified suppliers of anchor
3 manufacturers for purposes of state taxation and including
4 retroactive applicability provisions.

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

1 Section 1. NEW SECTION. 15.226 Definitions.

2 For purposes of this part:

3 1. "*Anchor manufacturer*" means a business that meets all of
4 the following:

5 a. Manufactures tangible personal property at a facility in
6 Iowa.

7 b. Exports at least fifty percent of the tangible personal
8 property produced at the facility to markets outside of the
9 state.

10 2. "*Certified supplier*" means a business certified pursuant
11 to section 15.227.

12 3. "*Facility*" means a building or buildings located in the
13 state at which tangible personal property is manufactured for
14 sale within or without the state of Iowa.

15 4. "*Manufactured*" or "*Manufactures*" means adding value to
16 personal property through a process of manufacturing, refining,
17 purifying, combining of different materials, the packaging of
18 meats, extracting and recovering natural resources, and all
19 processes of fabricating and curing, with a view to selling the
20 property for gain or profit.

21 5. "*Tangible personal property*" means the same as defined in
22 section 422.33, subsection 2, unnumbered paragraph 2.

23 Sec. 2. NEW SECTION. 15.227 Certification of suppliers.

24 1. A business meeting the requirements of subsection 2 may
25 apply to the authority, no later than ninety days after the
26 end of a tax year of the business, for certification under
27 this section. If a business applying to the authority meets
28 the requirements of subsection 2, the authority shall issue
29 a certificate to the business stating that the business is a
30 certified supplier.

31 2. To receive certification as a certified supplier, a
32 business must meet all of the following for the tax year
33 immediately preceding the tax year for which the requested
34 certificate will be valid:

35 a. The business manufactures tangible personal property at a

1 facility in Iowa.

2 *b.* The business derives more than ten percent of its gross
3 sales of tangible personal property manufactured at a facility
4 in Iowa from sales to anchor manufacturers. For purposes of
5 the requirement in this paragraph, a business may aggregate
6 gross sales to more than one anchor manufacturer.

7 *c.* The business provides a statement from an anchor
8 manufacturer, signed by an officer or authorized representative
9 of the anchor manufacturer, attesting that the anchor
10 manufacturer meets the definition of anchor manufacturer under
11 section 15.226, and provides supporting documentation in a form
12 prescribed by the authority.

13 *d.* The business meets one of the following criteria:

14 (1) At least ten percent of the total payroll of the
15 business is located in the state.

16 (2) The business employs at least fifty employees at a
17 facility in the state.

18 *e.* The business agrees to annually provide to the authority
19 information and data on jobs created and capital investments
20 made in the state by the business. The information and data
21 shall be in a form prescribed by the authority.

22 3. A certificate is valid for one tax year and shall include
23 an expiration date. Reapplication may be made each year for
24 certification under this part. The department of revenue shall
25 accept a validly issued, unexpired certificate issued under
26 this section.

27 4. The authority shall not issue certificates pursuant
28 to this section for tax years beginning on or after January
29 1, 2015. On or after January 1, 2015, the authority and the
30 department of revenue shall coordinate with the chairpersons
31 of the senate and house standing committees on economic
32 growth and rebuild Iowa to evaluate the effectiveness of this
33 certification process and the related adjustments to net income
34 provided in chapter 422, and the feasibility of continuing both
35 into the future.

1 Sec. 3. NEW SECTION. 15.228 Eligibility for adjustment to
2 net income of certified suppliers.

3 1. A certified supplier shall be eligible to make the
4 adjustment to net income in section 422.35, subsection 26, for
5 a tax year if all the following apply:

6 a. The certified supplier's net business income for the tax
7 year, allocated and apportioned to this state under section
8 422.33, subsection 2, paragraph "b", computed without regard
9 to section 422.35, subsection 26, increased by more than five
10 percent over the certified supplier's net business income in
11 the prior year, allocated and apportioned to this state under
12 section 422.33, subsection 2, paragraph "b".

13 b. The certified supplier attaches a copy of a valid,
14 unexpired certificate issued under section 15.227 to the
15 certified supplier's tax return required under chapter 422.

16 2. A taxpayer who is a shareholder in a subchapter S
17 corporation that is a certified supplier shall be eligible to
18 make the adjustment to net income in section 422.7, subsection
19 57, for a tax year if all the following apply:

20 a. The certified supplier's net business income for the tax
21 year, allocated and apportioned to this state under section
22 422.33, subsection 2, paragraph "b", computed without regard
23 to section 422.35, subsection 26, increased by more than five
24 percent over the certified supplier's net business income in
25 the prior year, allocated and apportioned to this state under
26 section 422.33, subsection 2, paragraph "b", computed with
27 regard to section 422.35, subsection 26, if the subchapter S
28 corporation was a certified supplier in the previous tax year
29 and met the eligibility requirements in this paragraph "a".

30 b. The shareholder attaches a copy of a valid, unexpired
31 certificate issued under section 15.227 to the shareholder's
32 tax return required under chapter 422.

33 Sec. 4. NEW SECTION. 15.229 Rules.

34 The authority and the department of revenue may adopt rules
35 for the implementation of this part.

1 Sec. 5. Section 422.7, Code Supplement 2011, is amended by
2 adding the following new subsection:

3 NEW SUBSECTION. 57. If the adjusted gross income includes
4 income from a subchapter S corporation for which the taxpayer
5 is a shareholder, which subchapter S corporation is a certified
6 supplier that meets the requirements in section 15.228,
7 subsection 2, paragraph "a", the taxpayer may subtract an amount
8 based on the taxpayer's pro rata share of the profits or losses
9 from the subchapter S corporation equal to the difference
10 between the subchapter S corporation's net business income for
11 the tax year, allocated and apportioned to this state under
12 section 422.33, subsection 2, paragraph "b", computed without
13 regard to section 422.35, subsection 26, and one hundred five
14 percent of the subchapter S corporation's net business income
15 for the prior tax year, allocated and apportioned under section
16 422.33, subsection 2, paragraph "b", computed with regard to
17 section 422.35, subsection 26, if the subchapter S corporation
18 was a certified supplier in the previous tax year and met the
19 requirements in section 15.228, subsection 2, paragraph "a".
20 A taxpayer who is a resident shall not make the subtraction
21 provided in this subsection unless the taxpayer also makes an
22 election pursuant to section 422.5, subsection 1, paragraph
23 "j", subparagraph (2).

24 Sec. 6. Section 422.35, Code Supplement 2011, is amended by
25 adding the following new subsection:

26 NEW SUBSECTION. 26. If the taxpayer is a certified supplier
27 that meets the requirements in section 15.228, subsection
28 1, subtract an amount equal to the difference between the
29 taxpayer's net business income for the tax year, allocated and
30 apportioned under section 422.33, subsection 2, paragraph "b",
31 computed without regard to this subsection, and one hundred
32 five percent of the taxpayer's net business income for the
33 prior tax year, allocated and apportioned under section 422.33,
34 subsection 2, paragraph "b".

35 Sec. 7. **RETROACTIVE APPLICABILITY.** This Act applies

1 retroactively to January 1, 2012, for tax years beginning on
2 or after that date.

3

EXPLANATION

4 This bill creates an economic development program that
5 allows a certified supplier to make an adjustment to net income
6 for state individual and corporate income tax purposes. The
7 adjustment is available for corporations and shareholders of
8 subchapter S corporations.

9 To qualify as a certified supplier under the bill, a business
10 must manufacture tangible personal property in Iowa, derive
11 more than 10 percent of its gross sales from sales to anchor
12 manufacturers, supply the authority with a signed statement
13 from the anchor manufacturer attesting that the anchor
14 manufacturer qualifies as an anchor manufacturer, and must
15 either maintain at least 10 percent of its payroll in Iowa or
16 employ at least 50 employees in Iowa. "Anchor manufacturer"
17 is defined as a business that manufactures tangible personal
18 property in Iowa and exports at least 50 percent of the
19 tangible personal property produced in Iowa outside of the
20 state.

21 A business that meets all of the qualifications of a
22 certified supplier may annually apply to the authority to
23 receive a certificate labeling the business as a certified
24 supplier. A business must apply for a certificate no later
25 than 90 days after the end of its tax year. The certificate is
26 valid for one year and shall include an expiration date.

27 The certified supplier will be entitled to make an
28 adjustment to its net income if it attaches the valid,
29 unexpired certificate to its tax return, and if its net
30 business income allocated and apportioned to this state,
31 computed without regard to the adjustment to net income
32 provided in the bill, increased by more than 5 percent over
33 its prior year net business income allocated and apportioned
34 to this state.

35 If both requirements are met, the certified supplier is

1 entitled to subtract from its net income an amount equal to
2 the difference between its current year net business income
3 allocated and apportioned to this state, computed without
4 regard to the adjustment to net income provided in the bill,
5 and 105 percent of its prior year net business income allocated
6 and apportioned to this state. The economic development
7 authority shall not issue certificates for tax years beginning
8 on or after January 1, 2015. After that date, the economic
9 development authority and the department are both required to
10 coordinate with the chairpersons of each committee on economic
11 growth/rebuild Iowa to evaluate the certification program.

12 The bill provides the authority and department of revenue
13 with rulemaking authority.

14 The bill applies retroactively to January 1, 2012, for tax
15 years beginning on or after that date.