

OVERVIEW

Iowa offers Innovation Fund tax credits to encourage venture capital investment in early-stage startup companies. The credit is allowed for equity investments made into a qualifying innovation fund certified by the Iowa Economic Development Authority (IEDA).

The Innovation Fund is successfully leveraging private investment:

	Innovation Fund Tax Credits	Private Investment
FY22	\$4,262,000	\$17,048,002
FY21	\$3,880,897	\$15,523,589
FY20	\$1,849,604	\$7,398,376

PROGRAM BENEFITS

Venture funds play a critical role in Iowa's economy. These investments:

- Invest in rural Iowa by supporting companies that focus on rural Iowa.
- Foster promising early-stage companies to build for the future. Most venture capital firms do not invest this early.
- Keep companies in Iowa and attract businesses from other states.
 - For example, because of investments from Next Level Ventures and ISA Ventures, coupled with ag resources from Iowa State University, Mazer Animal Health moved its headquarters from Missouri to Ames, Iowa, and is growing. (See Impact section.)

- Increase innovation workforce in Iowa.
 - For example, Next Level Ventures' portfolio companies employ more than 600 Iowans earning 100% more than Iowa's median hourly wage of \$18.75.
- Support regent universities' intellectual property and startup activity.
 - For example, VIDA Diagnostics was formed by University of Iowa professors and uses intellectual property from the UI Research Foundation. Without investment from Next Level Ventures, VIDA likely would have been sold, with its jobs and technology benefiting another state. And several award-winning startups, such as OpenLoop, have developed their businesses with support from the John Pappajohn Entrepreneurial Center programs at the regent universities.
- Highlight the potential of Iowans to be meaningful players in a global economy. Venture capital makes it possible to build the tools and technologies of the future, right here in Iowa.

VIDA DIAGNOSTICS, INC., CORALVILLE

“The IEDA's support through the Innovation Tax Credit has been instrumental in VIDA's viability and our ability to attract venture investment. These investments have had a direct impact on job creation in Iowa, as we recruit STEM-trained talent from the Regents universities. VIDA is forever grateful for the support of the state. Our company would not be here without it.”

— Susan Wood



BACKGROUND

Innovation fund tax credit:

1. IEDA is working to eliminate waitlists for all tax credit programs. Waitlists create future obligations of the state, create uncertainty for applicants and administrative burden for staff.
2. The pending sunset of the innovation fund program creates uncertainty for investors that intend to utilize credits and businesses expecting to obtain investments that may qualify for the credit.

Angel investor tax credit:

IEDA has, for several years now, proposed a bill to increase the Angel Investor allocation (currently \$2 million per year) because demand for angel investor tax credits has significantly exceeded the available allocation. When the Angel Investor program was established at IEDA, the focus of the program was generally on increasing investment to businesses. Over time, IEDA has refined its strategic priorities for innovative investments and incentives. There is an opportunity to reduce the demand for tax credits by reducing the number of eligible businesses. This can be accomplished by aligning the business eligibility criteria with the strategic priorities of IEDA and the State.

RECOMMENDATION

- Innovation fund tax credit
 1. Eliminate the requirement that IEDA maintain a waitlist if demand for credits exceeds the annual allocation.
 2. Allow the IEDA board to continue certifying innovation funds until June 30, 2028 (extend from June 30, 2023).
 3. Add education technology to the definition of "innovative business"
- Tax credits for investments in qualifying businesses:
 1. Limit qualifying businesses to the following industries: advanced manufacturing, biosciences, finance and insurance, information technology, and educational technology
 2. Allow IEDA to set, by June 30 of each year, the allocation amounts for the Innovation Fund program and qualifying business program, in an amount not to exceed \$10 million total. The statute currently allocates \$2 million to Tax Credits for Investments in Qualifying Business (Qualifying Business) and \$8 million to Innovation Fund Tax Credit program (Innovation Fund).

Change calendar year caps to fiscal year caps for individuals/households and for each qualifying business. The overall program cap is fiscal year based.

NEXT LEVEL VENTURES, DES MOINES

"Since NLV launched in 2014, we have invested \$69 million in 29 Iowa companies. ... Much of this activity would not have taken place if the State of Iowa and its taxpayers had not formed this tax credit initiative for venture capital investments. These credits have helped to develop the ecosystem for entrepreneurs to thrive in Iowa. Extending the tax credit program would further stimulate the startup community, generate more innovation employment and bolster capital formation in Iowa."

— Craig Ibsen



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IMPACT

PVpallet makes a recyclable plastic pallet for moving solar panels without breakage, and for storage in warehouses, instead of disposable wooden pallets. The company's founders chose Montrose, Iowa, for their headquarters as part of our investment in their company. PVpallet would otherwise have been located in Missouri, but for our investment. They've invested in a warehouse there, retrofitting it for their needs, and are hiring aggressively to grow their business. The company squarely fits the priorities for the state: it's a manufacturing business, it's "green," and it creates jobs in rural communities in the state of Iowa.

Mazen Animal Health makes vaccines for livestock grown in corn, making it much easier to administer. They chose to relocate their headquarters in Ames, Iowa - instead of Florida or Missouri, which were their alternative options - specifically because of investments from Next Level Ventures and ISA Ventures. The company continues to grow, and is hiring talented professionals to join their team, taking advantage of Iowa's expertise in agriculture and animal production. They also have partnerships with important employers already here, like Kent Feeds.

Rantizo has developed drone-based delivery systems for farm inputs like pesticides and herbicides. With its headquarters in Iowa City, the company sells its products and services all over the country, but the technology is primarily developed here. ISA Ventures was one of the earliest investors in the company, helping them keep their roots here in Iowa.

Gross-Wen Technologies uses algae to treat wastewater. With its headquarters on Main Street in Slater, Iowa, the company's products are used in major cities like Chicago and overseas in Singapore and Japan. The founders spun the technology out of research done at Iowa State University, and the majority of their team is located in Iowa. Gross-Wen is the perfect example of a high-tech startup reinvigorating small town Iowa.

Swinetech is located in Solon, IA, and has developed a mobile application and hardware to make managing swine production easier and more cost effective. They've sold their product to swine producers nationwide, but their main team is located in Eastern Iowa. A group in Tennessee tried to get them to relocate their company there, but investment from ISA Ventures and other Iowa-based investors helped them make the decision to stay here.

ISA VENTURES, CEDAR RAPIDS

"Since we started investing in mid-2020, we have invested in 38 companies. Collectively, they've raised \$142 million from both Iowa and non-Iowa investors to grow their operations. ... Our fund wouldn't exist - and many of our investments wouldn't have happened - without [the Innovation Fund] tax credit program in place. The tax credits are a major factor in our investors' decision to invest their capital here, and the design of the credits ensures that our investments are focused entirely on Iowa-based companies. ... For a modest cost to taxpayers, the benefits are exceptional and clearly worth the investment."

— Eric Engemann



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