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SENATE FILE 2025
BY COMMITTEE ON WAYS AND MEANS

WITHDRAWN (SUCCESSOR TO SF 2021)
1-24-02

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

A BILL FOR

1 An Act relating to economic stimulus measures for businesses by
2 creating an Iowa capital investment board, authorizing the
3 organization of an Iowa capital investment corporation and an
4 Iowa fund of funds, and authorizing the issuance of contingent
5 tax credits to investors in the Iowa fund of funds;
6 establishing a new economy employment initiative by providing
7 for a partial deduction under the individual income tax for
8 the capital gain from the sale or exchange of capital stock of
9 a corporation which was acquired by an individual on account
10 of employment with the corporation, and limiting the fiscal
11 impact of the partial deductions; establishing a small
12 business growth initiative by adjusting the allocation to Iowa
13 of income earned by an S corporation for purposes of the state
14 individual income tax; and including effective and retroactive
15 applicability date provisions.

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

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S.F. 2025

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DIVISION I

IOWA FUND OF FUNDS

Section 1. NEW SECTION. 15E.221 FINDINGS -- PURPOSE.

The general assembly finds the following: Fundamental changes have occurred in national and international financial markets and in the financial markets of this state. A critical shortage of seed and venture capital resources exists in the state, and such shortage is impairing the growth of commerce in the state. A need exists to increase the availability of venture equity capital for emerging, expanding, and restructuring enterprises in Iowa. Such investments will create jobs for Iowans and will help to diversify the state's economic base.

This division is enacted to fulfill the following purposes:

1. To mobilize private investment in a broad variety of venture capital partnerships in diversified industries and locales.
2. To retain the private-sector culture of focusing on rate of return in the investing process.
3. To secure the services of the best managers in the venture capital industry, regardless of location.
4. To facilitate the organization of the Iowa fund of funds in which to seek such private investment and to create interest in such investments by offering state incentives for private persons to make investments in the Iowa fund of funds.
5. To enhance the venture capital culture and infrastructure in the state of Iowa so as to increase venture capital investment within the state and to promote venture capital investing within Iowa.
6. To accomplish these purposes in such a manner as to minimize any appropriations by the state of Iowa.
7. To effectuate specific, measurable results, including all of the following:
 - a. The creation of five new venture capital fund offices in Iowa within three years of the effective date of this Act.

1 b. The investment of a minimum of twenty-five million
2 dollars in Iowa businesses within three years of the effective
3 date of this Act.

4 c. A cumulative rate of return on venture investments of
5 the Iowa fund of funds equal to at least seventeen percent by
6 the end of five years following the effective date of this
7 Act.

8 Sec. 2. NEW SECTION. 15E.222 DEFINITIONS.

9 As used in this division, unless the context otherwise
10 requires:

11 1. "Board" means the Iowa capital investment board created
12 in section 15E.223.

13 2. "Certificate" means a contract between the board and a
14 designated investor pursuant to which a tax credit is
15 available and issued to the designated investor.

16 3. "Designated investor" means a person, other than the
17 Iowa capital investment corporation, who purchases an equity
18 interest in the Iowa fund of funds or a transferee of a
19 certificate or tax credit.

20 4. "Iowa capital investment corporation" means a private,
21 nonprofit corporation created pursuant to section 15E.224.

22 5. "Iowa fund of funds" means a private, for-profit
23 limited partnership or limited liability company established
24 by the Iowa capital investment corporation pursuant to section
25 15E.225 in which a designated investor purchases an equity
26 interest.

27 6. "Tax credit" means a contingent tax credit issued
28 pursuant to section 15E.226 that is available against tax
29 liabilities imposed by chapter 422, divisions II, III, and V,
30 and by chapter 432.

31 Sec. 3. NEW SECTION. 15E.223 IOWA CAPITAL INVESTMENT
32 BOARD.

33 1. The Iowa capital investment board is created as a state
34 governmental board and the exercise by the board of powers
35 conferred by this division shall be deemed and held to be the

1 performance of essential public purposes. The purpose of the
2 board shall be to mobilize venture equity capital for
3 investment in such a manner that will result in a significant
4 potential to create jobs and to diversify and stabilize the
5 economy of the state.

6 2. The board shall consist of five voting members and two
7 nonvoting advisory members. The five voting members shall be
8 appointed by the governor and confirmed by the senate pursuant
9 to section 2.32. The five voting members shall be appointed
10 to five-year staggered terms that shall be structured to allow
11 the term of one member to expire each year. One nonvoting
12 member shall be appointed by the majority leader of the senate
13 after consultation with the president of the senate and the
14 minority leader of the senate. One nonvoting member shall be
15 appointed by the speaker of the house of representatives after
16 consultation with the majority and minority leaders of the
17 house of representatives. The nonvoting members shall be
18 appointed for two-year terms which shall expire upon the
19 convening of a new general assembly. Vacancies shall be
20 filled in the same manner as the appointment of the original
21 members. Members shall be compensated by the board for direct
22 expenses and mileage but members shall not receive a
23 director's fee, per diem, or salary for service on the board.
24 Members shall be selected based upon demonstrated expertise
25 and competence in the supervision of investment managers, in
26 the fiduciary management of investment funds, or in the
27 management and administration of tax credit allocation
28 programs. Members shall not have an interest in any person to
29 whom a tax credit is allocated and issued by the board.

30 3. The board shall have the power to engage consultants,
31 expend funds, invest funds, contract, bond or insure against
32 loss, or perform any other act necessary to carry out its
33 purpose, provided, however, that the board shall not hire
34 employees.

35 4. Members of the board shall be indemnified against loss

1 to the broadest extent permissible under chapter 669.

2 5. Meetings of the board shall, except to the extent
3 necessary to protect confidential information with respect to
4 investments in and investments made by the Iowa fund of funds,
5 be subject to chapter 21.

6 6. The board shall, in cooperation with the department of
7 revenue and finance, establish criteria and procedures for the
8 allocation and issuance of tax credits to designated investors
9 by means of certificates issued by the board. The criteria
10 shall include the contingencies that must be met for a
11 certificate to be redeemable by a designated investor or
12 transferee in order to receive a tax credit. The
13 contingencies to redemption shall be tied to the scheduled *
14 rates of return and scheduled redemptions of equity interests
15 purchased by designated investors in the Iowa fund of funds.
16 The procedures established by the board, in cooperation with
17 the department of revenue and finance, shall relate to the
18 procedures for the issuance of the certificates and the
19 related tax credits, for the transfer of a certificate and
20 related tax credit by a designated investor, and for the
21 redemption of a certificate and related tax credit by a
22 designated investor or transferee. The board shall also
23 establish criteria and procedures for assessing the likelihood
24 of future certificate redemptions by designated investors and
25 transferees, including, without limitation, criteria and
26 procedures for evaluating the value of investments made by the
27 Iowa fund of funds and the returns from the Iowa fund of
28 funds.

29 7. Pursuant to section 15E.226, the board shall issue
30 certificates which may be redeemable for tax credits to
31 provide incentives to designated investors to make equity
32 investments in the Iowa fund of funds. The board shall issue
33 the certificates so that not more than twenty million dollars
34 of tax credits may be initially redeemable in any fiscal year.

35 8. The board may charge a placement fee to the Iowa fund

1 of funds with respect to the issuance of a certificate and
2 related tax credit to a designated investor, but the fee shall
3 be charged only to pay for reasonable and necessary costs of
4 the board and shall not exceed one-half of one percent of the
5 equity investment of the designated investor.

6 9. The board shall, in consultation with the Iowa capital
7 investment corporation, publish an annual report of the
8 activities conducted by the Iowa fund of funds, and present
9 the report to the governor and the general assembly. The
10 annual report shall include a copy of the audit of the Iowa
11 fund of funds and a valuation of the assets of the Iowa fund
12 of funds, review the progress of the investment fund
13 allocation manager in implementing its investment plan, and
14 describe any redemption or transfer of a certificate issued
15 pursuant to this division, provided, however, that the annual
16 report shall not identify any specific designated investor who
17 has redeemed or transferred a certificate. Every five years,
18 the board shall publish a progress report which shall evaluate
19 the progress of the state of Iowa in accomplishing the
20 purposes stated in section 15E.221.

21 10. The board shall redeem a certificate submitted to the
22 board by a designated investor and shall calculate the amount
23 of the allowable tax credit based upon the investment returns
24 received by the designated investor and its predecessors in
25 interest and the provisions of the certificate. Upon
26 submission of a certificate for redemption, the board shall
27 issue a verification to the department of revenue and finance
28 setting forth the maximum tax credit which may be claimed by
29 the designated investor with respect to the redemption of the
30 certificate.

31 11. The board shall adopt rules pursuant to chapter 17A
32 necessary to administer the duties of the board.

33 Sec. 4. NEW SECTION. 15E.224 IOWA CAPITAL INVESTMENT
34 CORPORATION.

35 1. An Iowa capital investment corporation may be organized

1 as a private, not-for-profit corporation under chapter 504A.
2 The Iowa capital investment corporation is not a public
3 corporation or instrumentality of the state and shall not
4 enjoy any of the privileges and shall not be required to
5 comply with any of the requirements of a state agency. Except
6 as otherwise provided in this division, this division does not
7 exempt the corporation from the requirements under state law
8 which apply to other corporations organized under chapter
9 504A. The purposes of an Iowa capital investment corporation
10 shall be to organize the Iowa fund of funds, to select a
11 venture capital investment fund allocation manager to select
12 venture capital fund investments by the Iowa fund of funds, to
13 negotiate the terms of a contract with the venture capital
14 investment fund allocation manager, to execute the contract
15 with the selected venture capital investment fund manager on
16 behalf of the Iowa fund of funds, to receive investment
17 returns from the Iowa fund of funds, and to reinvest the
18 investment returns in additional venture capital investments
19 designed to result in a significant potential to create jobs
20 and to diversify and stabilize the economy of the state. The
21 corporation shall not exercise governmental functions and
22 shall not have members. The obligations of the corporation
23 are not obligations of this state or any political subdivision
24 of this state within the meaning of any constitutional or
25 statutory debt limitations, but are obligations of the
26 corporation payable solely and only from the corporation's
27 funds. The corporation shall not pledge the credit or taxing
28 power of this state or any political subdivision of this state
29 or make its debts payable out of any moneys except those of
30 the corporation.

31 2. To facilitate the organization of an Iowa capital
32 investment corporation, the following persons shall serve as
33 incorporators as provided in section 504A.28:

- 34 a. The chairperson of the Iowa finance authority.
- 35 b. The chairperson of the Iowa economic development board.

1 c. The chairperson of the board of directors of the
2 association of business and industry.

3 3. After incorporation, the initial board of directors
4 shall be elected by the incorporators. The initial board of
5 directors shall consist of five members. The persons elected
6 to the initial board of directors by the incorporators shall
7 include persons who have an expertise in the areas of the
8 selection and supervision of investment managers or in the
9 fiduciary management of investment funds, and other areas of
10 expertise as deemed appropriate by the incorporators. After
11 the election of the initial board of directors, vacancies in
12 the board of directors of the corporation shall be elected by
13 the remaining directors of the corporation. Members of the
14 board of directors shall be subject to any restrictions on
15 conflicts of interest specified in the organizational
16 documents and shall have no interest in any venture capital
17 investment fund allocation manager selected by the corporation
18 pursuant to the provisions of this division or in any
19 investments made by the Iowa fund of funds.

20 4. The incorporators shall exercise due care to assure
21 that persons elected to the initial board of directors have
22 the requisite financial experience necessary in order to carry
23 out the duties of the corporation as established in this
24 division, including in areas related to venture capital
25 investment, investment management, and supervision of
26 investment managers and investment funds.

27 5. The department of economic development shall assist the
28 incorporators in any manner determined necessary and
29 appropriate by the incorporators.

30 6. After incorporation, the Iowa capital investment
31 corporation shall conduct a national solicitation for
32 investment plan proposals from qualified venture capital
33 investment fund allocation managers for the raising and
34 investing of capital by the Iowa fund of funds in accordance
35 with the requirements of this division. Any proposed

1 investment plan shall address the applicant's level of
2 experience, quality of management, investment philosophy and
3 process, probability of success in fund-raising, prior
4 investment fund results, and plan for achieving the purposes
5 of this division. The selected venture capital investment
6 fund allocation manager shall be a person with substantial,
7 successful experience in the design, implementation, and
8 management of seed and venture capital investment programs and
9 in capital formation. The corporation shall only select a
10 venture capital investment fund allocation manager with
11 demonstrated expertise in the management and fund allocation
12 of investments in venture capital funds. The corporation
13 shall select the venture capital investment fund allocation
14 manager deemed best qualified to generate the amount of
15 capital required by this division and to invest the capital of
16 the Iowa fund of funds.

17 7. The Iowa capital investment corporation may charge a
18 management fee on assets under management in the Iowa fund of
19 funds. The fee shall be in addition to any fee charged to the
20 Iowa fund of funds by the venture capital investment fund
21 allocation manager selected by the corporation, but the fee
22 shall be charged only to pay for reasonable and necessary
23 costs of the Iowa capital investment corporation and shall not
24 exceed one-half of one percent per year of the value of assets
25 under management.

26 8. Directors of the Iowa capital investment corporation
27 shall be compensated for direct expenses and mileage but shall
28 not receive a director's fee or salary for service as
29 directors.

30 9. The Iowa capital investment corporation shall have the
31 power to engage consultants, expend funds, invest funds,
32 contract, bond or insure against loss, or perform any other
33 act necessary to carry out its purpose. However, the
34 corporation shall not hire staff as employees except to
35 administer the rural and small business loan guarantee program

1 of the Iowa fund of funds.

2 10. Upon the dissolution of the Iowa fund of funds, the
3 Iowa capital investment corporation shall be liquidated and
4 dissolved, and any assets owned by the corporation shall be
5 distributed to the state of Iowa and deposited in the general
6 fund.

7 Sec. 5. NEW SECTION. 15E.225 IOWA FUND OF FUNDS.

8 1. The Iowa capital investment corporation shall organize
9 the Iowa fund of funds. The Iowa fund of funds shall be
10 authorized to make investments in private seed and venture
11 capital partnerships or entities in a manner which will
12 encourage the availability of a wide variety of venture
13 capital in the state, strengthen the economy of the state,
14 help business in Iowa gain access to sources of capital, help
15 build a significant, permanent source of capital available to
16 serve the needs of Iowa businesses, and accomplish all these
17 benefits in a way that minimizes the use of tax credits.

18 2. The Iowa capital investment corporation shall organize
19 the Iowa fund of funds in the following manner:

20 a. The Iowa fund of funds shall be organized as a private,
21 for-profit, limited partnership or limited liability company
22 under Iowa law pursuant to which the Iowa capital investment
23 corporation shall be the general partner or manager. The
24 entity shall be organized so as to provide for equity
25 interests for designated investors which provide for a
26 designated scheduled rate of return and a scheduled redemption
27 which shall occur not less than five years following the
28 issuance of such equity interests. The interest of the Iowa
29 capital investment corporation in the Iowa fund of funds shall
30 be to serve as general partner or manager and to be paid a
31 management fee for the service as provided in section 15E.224,
32 subsection 7, and to receive investment returns of the Iowa
33 fund of funds in excess of those payable to designated
34 investors. Any returns in excess of those payable to
35 designated investors shall be reinvested by the Iowa capital

1 investment corporation by being held in the Iowa fund of funds
2 as a revolving fund for reinvestment in venture capital funds
3 or investments until the termination of the Iowa fund of
4 funds. Any returns received from these reinvestments shall be
5 deposited in the revolving fund.

6 b. The Iowa fund of funds shall principally make
7 investments in high-quality venture capital funds managed by
8 investment managers who have made a commitment to consider
9 equity investments in businesses located within the state of
10 Iowa and which have committed to maintain a physical presence
11 within the state of Iowa. The investments by the Iowa fund of
12 funds shall be focused principally on partnership interests in
13 private venture capital funds and not in direct investments in
14 individual businesses. The Iowa fund of funds shall invest in
15 venture capital funds with experienced managers or management
16 teams with demonstrated expertise and a successful history in
17 the investment of venture capital funds. The Iowa fund of
18 funds may invest in newly created venture capital funds as
19 long as the managers or management teams of the funds have the
20 experience, expertise, and a successful history in the
21 investment of venture capital funds described in this
22 paragraph.

23 c. The Iowa fund of funds shall establish and administer a
24 program to provide loan guarantees and other related credit
25 enhancements on loans to rural and small business borrowers
26 within the state of Iowa. The Iowa fund of funds shall invest
27 a minimum of five percent of its assets in investments for
28 this program.

29 d. The Iowa fund of funds shall have the power to engage
30 consultants, expend funds, invest funds, contract, bond or
31 insure against loss, or perform any other act necessary to
32 carry out its purpose, including, without limitation, engaging
33 and agreeing to compensate a venture capital investment fund
34 allocation manager. Such compensation shall be in addition to
35 the management fee paid to the Iowa capital investment

1 corporation. However, the Iowa fund of funds shall not hire
2 employees except to administer its rural and small business
3 loan guarantee and credit enhancement program.

4 e. The Iowa fund of funds may issue debt and borrow such
5 funds as may be needed to accomplish its goals. However, such
6 debt shall not be secured by tax credits issued by the board.
7 The Iowa fund of funds may open and manage bank and short-term
8 investment accounts as deemed necessary by the venture capital
9 investment fund allocation manager.

10 f. The Iowa fund of funds may expend moneys to secure
11 investment ratings for investments by designated investors in
12 the Iowa fund of funds.

13 g. The Iowa fund of funds shall engage a certified public
14 accountant to conduct an annual audit of the activities of the
15 Iowa fund of funds. The audit shall be delivered to the Iowa
16 capital investment corporation and the board each year and
17 shall include a valuation of the assets owned by the Iowa fund
18 of funds as of the end of each year.

19 h. Fifty years after the organization of the Iowa fund of
20 funds, the Iowa capital investment corporation shall cause the
21 Iowa fund of funds to be liquidated with all of its assets
22 distributed to its owners in accordance with the provisions of
23 its organizational documents.

24 Sec. 6. NEW SECTION. 15E.226 CERTIFICATES AND TAX
25 CREDITS.

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

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

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

1 be modified, terminated, or rescinded.

2 3. If a designated investor elects to redeem a
3 certificate, the certificate shall be redeemed on June 30 of
4 the calendar year maturity date stated on the certificate. At
5 the time of redemption, the board shall determine the amount
6 of the tax credit that may be claimed by the designated
7 investor based upon the returns received by the designated
8 investor and its predecessors in interest and the provisions
9 of the certificate. The board shall issue a verification to
10 the department of revenue and finance setting forth the
11 maximum tax credit which can be claimed by the designated
12 investor with respect to the redemption of the certificate.

13 4. The board shall, in conjunction with the department of
14 revenue and finance, develop a system for registration of any
15 certificate and related tax credit issued or transferred
16 pursuant to this section and a system that permits
17 verification that any tax credit claimed upon a tax return is
18 valid and that any transfers of the certificate and related
19 tax credit are made in accordance with the requirements of
20 this division.

21 5. The board shall issue the tax credits in such a manner
22 that not more than twenty million dollars of tax credits may
23 be initially redeemable in any fiscal year.

24 6. A certificate or tax credit issued or transferred
25 pursuant to this division shall not be considered a security
26 pursuant to chapter 502.

27 7. In determining the one hundred million dollar maximum
28 limit in subsection 1 and the twenty million dollar limitation
29 in subsection 5, the board shall use the cumulative amount of
30 scheduled aggregate returns on certificates issued by the
31 board to designated investors. However, certificates and
32 related tax credits which have expired shall not be included
33 and certificates and related tax credits which have been
34 redeemed shall be included only to the extent of tax credits
35 actually allowed.

1 options equal to twenty percent of all issued outstanding
2 incentive stock options divided by the number of full-time
3 employees.

4 (2) "Corporation" means any of the following:

5 (a) A corporation which at the time of the first sale or
6 exchange for which an election is made under paragraph "c" has
7 been in existence and actively doing business for at least
8 three years and is not a personal holding company as defined
9 in section 542(a) of the Internal Revenue Code.

10 (b) A corporation which is a member of an affiliated
11 group, as defined in section 1504(a) of the Internal Revenue
12 Code, which group includes a corporation described in
13 subparagraph subdivision (a) and which group has been in
14 existence and actively doing business for at least three
15 years.

16 (c) A predecessor or successor corporation of a
17 corporation described in subparagraph subdivision (a). A
18 corporation is a predecessor or successor corporation if the
19 corporation was a party to a reorganization that was entirely
20 or substantially income tax free and that occurred during or
21 after the employment of the taxpayer making an election under
22 paragraph "c".

23 (3) "Incentive stock option" means the same as defined in
24 section 422(b) of the Internal Revenue Code.

25 b. For purposes of this subsection, the corporation
26 issuing capital stock for which an election under paragraph
27 "c" is made must, at the time of the first sale or exchange
28 for which the election is made, have at least five
29 shareholders and at least two shareholders or groups of
30 shareholders who are not related to each other and each of
31 which owns at least five percent of the capital stock.

32 For purposes of this paragraph "b", two persons shall be
33 considered to be related when, under section 318 of the
34 Internal Revenue Code, one is a person who owns, directly or
35 indirectly, capital stock that if directly owned would be

1 attributed to the other person or is the spouse, child,
2 parent, grandparent, brother, sister, aunt, uncle, cousin,
3 niece, or nephew of the other person who owns capital stock
4 either directly or indirectly.

5 c. (1) In the manner provided in paragraph "d", an
6 individual may elect to subtract one-half of the capital gain
7 from the sale or exchange of capital stock of a corporation
8 acquired by the individual on account of employment with that
9 corporation. However, for tax years beginning in the 2002
10 calendar year, the amount that may be subtracted is one-fourth
11 of such capital gain.

12 (2) (a) Each individual shall be entitled to two
13 elections under subparagraph (1) during the individual's
14 lifetime for the capital stock of two different corporations.

15 (b) The election applies only to the tax year for which
16 the election was made and applies to all sales and exchanges
17 in the tax year for which the election was made of capital
18 stock in the same corporation which was acquired as provided
19 in subparagraph (1).

20 (c) After the individual makes an election for the tax
21 year, the election shall also apply to the sale or exchange in
22 that tax year of capital stock of the corporation which had
23 been transferred by inter vivos gift from the individual to
24 the individual's spouse if the capital stock was acquired as
25 provided in subparagraph (1). This provision applies in the
26 case of the spouse, only if the spouse was married to such
27 individual on the date of sale or exchange or the date of
28 death of the individual and if the spouse and individual file
29 a joint Iowa income tax return on which the election is made.
30 If the individual dies without making an election, the
31 surviving spouse may make the election for capital stock that
32 would have qualified under this subparagraph subdivision.
33 However, if there is no surviving spouse, the oldest surviving
34 issue who owns capital stock that would have qualified under
35 this subparagraph subdivision may make the election.

1 d. An election under paragraph "c" shall be made by
2 including a written statement with the taxpayer's Iowa income
3 tax return for the tax year for which the election is made.
4 The written statement shall identify the corporation that
5 issued the capital stock, the grounds for the election under
6 this subsection, and that the taxpayer elects to have this
7 subsection apply to sales and exchanges in that tax year.

8 (1) In order for the taxpayer to claim the benefits of the
9 partial deduction of the capital gain under this subsection,
10 the taxpayer must completely fill out the tax return,
11 determine the taxpayer's income tax liability without the
12 benefit of this subsection, and pay the amount of tax owed.
13 The taxpayer shall recompute the taxpayer's income tax
14 liability, by applying the provisions of this subsection on a
15 special return. This special return shall be filed under
16 rules of the director and constitutes a claim for refund of
17 the difference between the amount of tax the taxpayer paid as
18 determined without the application of the provisions of this
19 subsection and the amount of tax determined with the
20 application of the provisions of this subsection.

21 (2) This subsection shall not affect the amount of the
22 taxpayer's checkoff to the Iowa election campaign fund under
23 section 56.18, the checkoff for the state fish and game
24 protection fund in section 456A.16, the credits from tax
25 provided in sections 422.10, 422.11A, and 422.12 and the
26 allocation of these credits between spouses if the taxpayers
27 filed separate returns or separately on combined returns.

28 (3) For any tax year, the aggregate amount of refund
29 claims that shall be paid pursuant to this subsection shall
30 not exceed three million dollars. If, for a tax year, the
31 aggregate amount of refund claims filed pursuant to this
32 subsection exceeds three million dollars, each claim for
33 refund shall be paid on a pro rata basis so that the aggregate
34 amount of refund claims paid does not exceed three million
35 dollars. In the case where refund claims are not paid in

1 full, the amount of the refund to which the taxpayer is
2 entitled under this subsection is the pro rata amount that was
3 paid and the taxpayer is not entitled to a refund of the
4 unpaid portion and is not entitled to carry that amount
5 forward or backward to another tax year. Taxpayers shall not
6 use refunds as estimated payments for the succeeding tax year.
7 Taxpayers whose tax years begin on January 1 must file their
8 refund claims by October 31 of the calendar year following the
9 end of their tax years to be eligible for refunds. Taxpayers
10 whose tax years begin on a date other than January 1 must file
11 their refund claims by the end of the tenth month following
12 the end of their tax years to be eligible. The department
13 shall determine on February 1 of the second succeeding
14 calendar year if the total amount of claims for refund exceeds
15 three million dollars for the tax year. Notwithstanding any
16 other provision, interest shall not be due on any refund
17 claims that are paid by the last day of February of the second
18 succeeding calendar year. If the claim is not payable on
19 February 1 of the second succeeding calendar year, because the
20 taxpayer is a fiscal year filer, the claim shall be considered
21 a claim for the following tax year.

22 e. The deduction under this subsection is in lieu of any
23 deduction allowable under section 1202 of the Internal Revenue
24 Code for the capital gain from the sale or exchange of the
25 same capital stock.

26 Sec. 10. EFFECTIVE AND RETROACTIVE APPLICABILITY DATE.
27 This division of this Act, being deemed of immediate
28 importance, takes effect upon enactment and applies
29 retroactively to January 1, 2002, for tax years beginning on
30 or after that date.

31 DIVISION III

32 SMALL BUSINESS GROWTH INITIATIVE

33 Sec. 11. Section 422.8, subsection 2, paragraph b,
34 subparagraph (2), Code 2001, is amended to read as follows:

35 (2) Any cash or the value of property distributions which

1 are made only to the extent that they are paid from income
2 upon which Iowa income tax has not been paid, as determined
3 under rules of the director, reduced by ~~fifty-percent-of~~ the
4 amount of any of these distributions that are made to enable
5 the shareholder to pay federal income tax on items of income,
6 loss, and expenses from the corporation.

7 Sec. 12. APPLICABILITY PROVISION. This division of this
8 Act applies retroactively to January 1, 2002, for tax years
9 beginning on or after that date.

10

EXPLANATION

11 This bill relates to economic stimulus measures for
12 businesses. The bill is divided into three divisions with
13 division I relating to a venture capital initiative, division
14 II relating to a new economy employment initiative, and
15 division III relating to a small business growth initiative.

16 Division I - Division I of this bill creates a state
17 governmental entity, the Iowa capital investment board, and
18 authorizes the organization of a private, not-for-profit
19 corporation, the Iowa capital investment corporation, and the
20 organization of a for-profit, limited partnership or limited
21 liability company, the Iowa fund of funds. The division also
22 authorizes the issuance of tax credits to investors in the
23 Iowa fund of funds.

24 The division creates the Iowa capital investment board as a
25 governmental entity. The division provides that the board
26 shall consist of five voting members and two nonvoting
27 members. The division provides the board with powers to carry
28 out its purpose and prohibits the board from hiring employees.
29 The division provides that board members are indemnified
30 against loss under Code chapter 669. The division provides
31 that board meetings shall comply with open meetings laws,
32 except to the extent necessary to protect confidential
33 information with respect to investments in and investments
34 made by the Iowa fund of funds. The division provides that
35 the board, in cooperation with the department of revenue and

1 finance, shall establish criteria and procedures for the
2 allocation and issuance of tax credits to designated investors
3 by means of certificates issued by the board. The division
4 provides that the board shall issue certificates which may be
5 redeemable for tax credits as incentives to designated
6 investors to make equity investments. The division provides
7 that the board shall issue the certificates so that not more
8 than \$20 million of tax credits may be initially redeemable in
9 any fiscal year. The division provides that the board may
10 charge a placement fee to the Iowa fund of funds with respect
11 to the issuance of a certificate and related tax credit. The
12 division provides that the board, in consultation with the
13 Iowa capital investment corporation, shall publish an annual
14 report of the activities conducted by the Iowa fund of funds.
15 The division provides that the board shall redeem a
16 certificate submitted by a designated investor, shall
17 calculate the amount of the allowable tax credit, and issue a
18 verification to the department of revenue and finance setting
19 forth the maximum tax credit which may be claimed. The
20 division requires the board to adopt administrative rules
21 necessary to administer the duties of the board.

22 The division authorizes the organization of an Iowa capital
23 investment corporation as a private, not-for-profit
24 corporation. The division provides a method for
25 incorporation, including providing for incorporators and an
26 initial board of directors. The division provides that the
27 department of economic development shall assist the
28 incorporators in any manner determined necessary and
29 appropriate. The division provides that the corporation shall
30 conduct a national solicitation for an investment plan
31 proposal. The division provides that the corporation may
32 charge a management fee on assets under management in the Iowa
33 fund of funds which shall not exceed one-half of 1 percent per
34 year of the value of the assets under management. The
35 division provides that the directors of the corporation shall

1 be compensated for direct expenses and mileage, but shall not
2 receive a director's fee or salary for their service. The
3 division provides the corporation with various business-
4 related powers. The division provides that, upon the
5 dissolution of the Iowa fund of funds, the corporation shall
6 be liquidated and dissolved, and any assets owned by it shall
7 be distributed to the state of Iowa.

8 The division provides for the organization of the Iowa fund
9 of funds by the Iowa capital investment corporation. The
10 division provides that the Iowa fund of funds shall be
11 organized as a for-profit limited partnership or limited
12 liability company to which the Iowa capital investment
13 corporation shall be the general partner or manager. The
14 division provides that the Iowa fund of funds shall be
15 organized so as to provide for equity interests for designated
16 investors which provide for a designated scheduled rate of
17 return and a scheduled redemption which shall occur not less
18 than five years following the issuance of such equity
19 interests.

20 The division provides that the Iowa fund of funds shall
21 principally make investments in high-quality venture capital
22 funds managed by investment managers who have made a
23 commitment to consider equity investments in businesses
24 located within the state of Iowa and which have committed to
25 maintain a physical presence within the state of Iowa. The
26 division provides that the Iowa fund of funds shall invest a
27 minimum of 5 percent of its assets in investments in the form
28 of loan guarantees and other related credit enhancements on
29 loans to rural and small business borrowers within the state
30 of Iowa. The division provides the Iowa fund of funds with
31 certain business-related powers. The division provides that
32 the Iowa fund of funds may issue debt and borrow and may open
33 and manage bank and short-term investment accounts. The
34 division provides that the Iowa fund of funds may expend
35 moneys to secure investment ratings for investments by

1 designated investors. The division provides that the Iowa
2 fund of funds shall engage a certified public accountant to
3 conduct an annual audit. The division provides that the Iowa
4 fund of funds shall be liquidated 50 years following the
5 organization of the Iowa fund of funds.

6 The division provides that the Iowa capital investment
7 board may issue to designated investors certificates and
8 related tax credits which shall not exceed a total aggregate
9 of \$100 million of tax credits. The division provides the
10 certificates shall be issued contemporaneously with an
11 investment in the Iowa fund of funds by a designated investor.
12 The division provides that the certificates and tax credits
13 are transferable. The division provides that a tax credit
14 shall be claimed for a tax year that begins during the
15 calendar year maturity date stated on the certificate. The
16 division provides that the amount of the tax credit shall be
17 limited to the equivalent of any difference between the
18 scheduled aggregate return to the designated investor and the
19 aggregate return on invested capital at rates of return
20 authorized by the board. The division provides that any tax
21 credit in excess of the designated investor's tax liability
22 for the tax year may be credited to the tax liability for the
23 following seven years, or until depleted, whichever is
24 earlier. The division provides that the board, in conjunction
25 with the department of revenue and finance, develop a system
26 for registration of any certificate and related tax credit
27 issued or transferred and a verification system. The division
28 provides that the board shall issue tax credits in such a
29 manner that not more than \$20 million of tax credits may be
30 initially redeemable in any fiscal year. The division
31 provides that a certificate or tax credit issued pursuant to
32 the division is not considered a security.

33 The division provides provisions relating to statutory
34 construction and the powers of the Iowa capital investment
35 board.

1 The division provides that investments by designated
2 investors in the Iowa fund of funds shall be deemed
3 permissible investments for state-chartered banks and for
4 domestic insurance companies under applicable state laws.

5 Division II - Division II of this bill provides a deduction
6 under the individual income tax of 50 percent (25 percent for
7 the 2002 tax year) of the capital gain from the sale or
8 exchange of capital stock of a corporation acquired by the
9 taxpayer on account of employment with the corporation. The
10 taxpayer must make an election to take the deduction and the
11 election only applies for that tax year. The election is made
12 by a written statement filed with the department. In
13 addition, the benefits of the deduction are realized by means
14 of a refund claim. This involves the taxpayer filing a return
15 with tax liability determined without deduction for the
16 capital gain and a special return with tax liability
17 determined with the deduction for the capital gain. The
18 reduction in tax liability will be treated as a claim for
19 refund of the amount of the reduction. However, not more than
20 \$3 million in tax refunds may be allowed for any tax year. If
21 more refunds are claimed, then each refund claim is payable at
22 a pro rata amount, which is the final amount of the taxpayer's
23 actual refund. A taxpayer may make two elections for two
24 different corporations during the taxpayer's lifetime. The
25 election would also apply to stock sold during that tax year
26 which was previously granted to a spouse of the taxpayer but
27 only if they file a joint Iowa income tax return. The
28 election would not apply to capital gains from stock or stock
29 options unless the corporation issuing the options offered
30 them to all full-time employees.

31 The deduction is in lieu of the deduction that may be
32 allowable under the Internal Revenue Code for sale or exchange
33 of stock in a small business held for five years.

34 The division takes effect upon enactment and applies
35 retroactively to January 1, 2002, for tax years beginning on

1 or after that date.

2 Division III - Under the state individual income tax,
3 resident shareholders of S corporations doing business within
4 and without the state are allowed to allocate income between
5 Iowa and other states in determining their state income tax.
6 As part of the allocation procedure, under current law, 50
7 percent of the amount of an S corporation distribution
8 received by a shareholder, which is used to pay federal income
9 tax, is not allocated to Iowa. Division III of the bill
10 increases this percentage to 100 percent.

11 The division applies retroactively to January 1, 2002, for
12 tax years beginning on or after that date.

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SENATE FILE 2025

S-5002

1 Amend Senate File 2025 as follows:

2 1. Page 1, by striking lines 1 and 2.

3 2. Page 1, line 11, by inserting after the word
4 "Iowa" the following: ", including, without
5 limitation, enterprises in the life sciences, advanced
6 manufacturing, information technology, and value-added
7 agriculture areas".

8 3. Page 1, line 34, by striking the word "five"
9 and inserting the following: "three".

10 4. Page 2, by striking lines 1 through 7 and
11 inserting the following:

12 "b. The investment of resources from the Iowa fund
13 of funds in Iowa businesses within three years of the
14 effective date of this Act.

15 c. A cumulative rate of return on venture
16 investments of the Iowa fund of funds equal to a
17 minimum of one and one-half percentage points above
18 the ten-year treasury bill rate in effect at the end
19 of five years following the effective date of this
20 Act."

21 5. Page 2, line 30, by inserting after the figure
22 "432" the following: "and against the moneys and
23 credits tax imposed by section 533.24".

24 6. Page 4, line 4, by striking the words "and
25 investments made by".

26 7. Page 4, line 34, by inserting after the word
27 "year." the following: "The board shall indicate on
28 the tax certificate the principal amount of the tax
29 credit and the taxable year or years for which the
30 credit may be claimed."

31 8. Page 6, line 5, by striking the words "any
32 of".

33 9. Page 6, line 27, by inserting after the words
34 "shall not" the following: "and cannot".

35 10. By striking page 6, line 31, through page 7,
36 line 26, and inserting the following:

37 "2. To facilitate the organization of an Iowa
38 capital investment corporation, both of the following
39 persons shall serve as incorporators as provided in
40 section 504A.28:

41 a. The chairperson of the Iowa economic
42 development board or a designee of the chairperson.

43 b. The director of the department of economic
44 development or a designee of the director.

45 3. After incorporation, the initial board of
46 directors shall be elected by the members of an
47 appointment committee. The members of the appointment
48 committee shall be appointed by the Iowa economic
49 development board. The initial board of directors
50 shall consist of five members. The persons elected to

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1 the initial board of directors by the appointment
2 committee shall include persons who have an expertise
3 in the areas of the selection and supervision of
4 investment managers or in the fiduciary management of
5 investment funds, and other areas of expertise as
6 deemed appropriate by the appointment committee.
7 After the election of the initial board of directors,
8 vacancies in the board of directors of the corporation
9 shall be elected by the remaining directors of the
10 corporation. Members of the board of directors shall
11 be subject to any restrictions on conflicts of
12 interest specified in the organizational documents and
13 shall have no interest in any venture capital
14 investment fund allocation manager selected by the
15 corporation pursuant to the provisions of this
16 division or in any investments made by the Iowa fund
17 of funds.

18 4. The members of the appointment committee shall
19 exercise due care to assure that persons elected to
20 the initial board of directors have the requisite
21 financial experience necessary in order to carry out
22 the duties of the corporation as established in this
23 division, including in areas related to venture
24 capital investment, investment management, and
25 supervision of investment managers and investment
26 funds.

27 5. Upon the election of the initial board of
28 directors, the terms of the members of the appointment
29 committee shall expire."

30 11. Page 7, line 28, by inserting after the word
31 "incorporators" the following: "and the appointment
32 committee".

33 12. Page 7, line 29, by striking the words "the
34 incorporators" and inserting the following: "the
35 director of the department in order to administer this
36 section".

37 13. Page 10, by striking lines 26 through 28, and
38 inserting the following: "within the state of Iowa.
39 The Iowa fund of funds shall not invest more than five
40 percent of its assets in investments for this
41 program."

42 14. Page 11, by striking lines 13 through 15, and
43 inserting the following:

44 "g. Each calendar year, the auditor of state shall
45 conduct an annual audit of the activities of the Iowa
46 fund of funds or shall engage an independent auditor
47 to conduct the audit provided that the independent
48 auditor has no business, contractual, or other
49 connection to the Iowa capital investment corporation
50 or the Iowa fund of funds. The corporation shall

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1 reimburse the auditor of state for costs associated
2 with the annual audit. The audit shall be delivered
3 to the Iowa".

4 15. Page 11, by inserting after line 23 the
5 following:

6 "i. Upon the liquidation of the Iowa fund of
7 funds, the Iowa capital investment corporation shall
8 file a report with the general assembly stating how
9 many jobs in this state were created through
10 investments made by the Iowa fund of funds."

11 16. Page 13, line 23, by inserting after the word
12 "year." the following: "The board shall indicate on
13 the tax certificate the principal amount of the tax
14 credit and the taxable year or years for which the
15 credit may be claimed."

16 17. Page 14, line 20, by inserting after the word
17 "banks" the following: ", for credit unions,".

18 18. Page 14, by inserting after line 21, the
19 following:

20 "Sec. ____ . NEW SECTION. 15E.229 ENFORCEMENT.

21 The attorney general may enforce the provisions of
22 this division and conduct any investigations necessary
23 for such enforcement."

24 19. By striking page 14, line 22, through page
25 19, line 9.

26 20. Title page, by striking lines 1 through 15,
27 and inserting the following: "An Act creating an Iowa
28 capital investment board, authorizing the organization
29 of an Iowa capital investment corporation and an Iowa
30 fund of funds, and authorizing the issuance of
31 contingent tax credits to investors in the Iowa fund
32 of funds."

33 21. By renumbering as necessary.

By LARRY McKIBBEN

S-5002 FILED JANUARY 24, 2002

ADOPTED

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