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SENATE FILE 2044
BY HANSEN

(COMPANION TO LSB 5572HH
BY WARNSTADT)

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

A BILL FOR

1 An Act creating a tax credit for investments in qualified
2 businesses engaged in producing, developing, or marketing a
3 product for detecting, containing, preventing, or countering
4 harmful biological or chemical agents and providing effective
5 and retroactive applicability dates.

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

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SF 2044
WAYS & MEANS

1 Section 1. NEW SECTION. 15E.221 DEFINITIONS.

2 As used in this division, unless the context otherwise
3 requires:

4 1. "Equity" means common stock or preferred stock,
5 regardless of class or series, of a corporation; a partnership
6 interest in a limited partnership; or a membership interest in
7 a limited liability company, which is not required or subject
8 to an option on the part of the taxpayer to be redeemed by the
9 issuer within two years from the date of issuance.

10 2. "Qualified business" means a business that meets all of
11 the following criteria:

12 a. Has annual gross revenues of five million dollars or
13 less in its most recent fiscal year.

14 b. Is domiciled in the state of Iowa.

15 c. Is engaged in business primarily in, or does
16 substantially all of its production in, the state of Iowa.

17 d. Is primarily engaged in a business that produces,
18 develops, or markets a product for detecting, containing,
19 preventing, or countering harmful biological or chemical
20 agents.

21 3. "Subordinated debt" means debt that either is unsecured
22 or has a subordinate claim on the assets of the debtor.

23 Sec. 2. NEW SECTION. 15E.222 TAX CREDITS.

24 1. For tax years beginning on or after January 1, 2002, a
25 tax credit shall be allowed against the taxes imposed under
26 chapter 422, divisions II, III, and V, and under chapter 432,
27 for a certified equity or subordinated debt investment in a
28 qualified business. An individual may claim the credit of a
29 partnership, limited liability company, S corporation, estate,
30 or trust electing to have income taxed directly to the
31 individual. The amount claimed by the individual shall be
32 based upon the pro rata share of the individual's earnings
33 from the partnership, limited liability company, S
34 corporation, estate, or trust.

35 2. a. The tax credit allowed under this section shall be

1 for the following amounts:

2 (1) After the certified equity or subordinated debt
3 investment is held for a period of two years, twenty percent
4 of the certified equity or subordinated debt investment.

5 (2) After the certified equity or subordinated debt
6 investment is held for a period of four years, an additional
7 ten percent of the certified equity or subordinated debt
8 investment.

9 (3) After the certified equity or subordinated debt
10 investment is held for a period of six years, an additional
11 ten percent of the certified equity or subordinated debt
12 investment.

13 (4) After the certified equity or subordinated debt
14 investment is held for a period of eight years, an additional
15 ten percent of the certified equity or subordinated debt
16 investment.

17 b. For purposes of paragraph "a" in computing the holding
18 period of an equity investment that was obtained by the
19 taxpayer as a result of the conversion of the taxpayer's
20 investment in a subordinated debt, the time the taxpayer held
21 the investment in the subordinated debt shall be added to the
22 time the taxpayer held the equity investment.

23 c. Any tax credit in excess of the taxpayer's liability
24 for the tax year may be credited to the tax liability for the
25 following three years or until depleted, whichever is earlier.
26 A tax credit shall not be carried back to a tax year prior to
27 the tax year in which the taxpayer redeems the tax credit.

28 d. A taxpayer shall not claim a tax credit in a single tax
29 year under this section of more than fifty thousand dollars.

30 e. A taxpayer making an equity or subordinated debt
31 investment in a qualified business shall submit an application
32 to the department of economic development for certification of
33 eligibility for a tax credit.

34 3. The aggregate amount of tax credits issued under this
35 section for taxes imposed pursuant to chapter 422, divisions

1 II, III, and V, and chapter 432 shall not exceed a total of
2 five million dollars.

3 4. The department of revenue and finance, in consultation
4 with the department of economic development, shall develop a
5 system for registration, authorization, and redemption of tax
6 credits issued by the state under this section. The
7 department of revenue and finance and the department of
8 economic development shall adopt any other policies,
9 procedures, or rules pursuant to chapter 17A necessary for the
10 administration of this section and of tax credits issued by
11 the state under this section.

12 Sec. 3. NEW SECTION. 422.11F HARMFUL BIOLOGICAL OR
13 CHEMICAL AGENTS TAX CREDIT.

14 The taxes imposed under this division, less the credits
15 allowed under section 422.12 and any other nonrefundable
16 credit, shall be reduced by a tax credit in the manner as
17 authorized pursuant to section 15E.222.

18 Sec. 4. Section 422.33, Code Supplement 2001, is amended
19 by adding the following new subsection:

20 NEW SUBSECTION. 12. The taxes imposed under this division
21 shall be reduced by a tax credit in the manner as authorized
22 pursuant to section 15E.222.

23 Sec. 5. Section 422.60, Code 2001, is amended by adding
24 the following new subsection:

25 NEW SUBSECTION. 4. The taxes imposed under this division
26 shall be reduced by a tax credit in the manner as authorized
27 pursuant to section 15E.222.

28 Sec. 6. NEW SECTION. 432.12A HARMFUL BIOLOGICAL OR
29 CHEMICAL AGENT TAX CREDIT.

30 The taxes imposed under this chapter shall be reduced by a
31 tax credit in the manner as authorized pursuant to section
32 15E.222.

33 Sec. 7. EFFECTIVE AND APPLICABILITY DATES. This Act,
34 being deemed of immediate importance, takes effect upon
35 enactment and applies retroactively to January 1, 2002, for

1 tax years beginning on or after that date.

2 EXPLANATION

3 This bill allows a tax credit to be claimed against
4 personal income tax liability, corporate income tax liability,
5 franchise tax liability, and insurance premium tax liability
6 for a certified equity or subordinated debt investment in a
7 qualified business. The tax credit is available for tax years
8 beginning on or after January 1, 2002. The bill provides that
9 a qualified business is a business that has annual gross
10 revenues of \$5 million or less in its most recent fiscal year,
11 is domiciled in the state of Iowa, is engaged in business
12 primarily in or does substantially all of its production in
13 the state of Iowa, and is primarily engaged in a business that
14 produces, develops, or markets a product for detecting,
15 containing, preventing, or countering harmful biological or
16 chemical agents. The bill provides that the department of
17 economic development shall certify investments in qualified
18 businesses.

19 The bill provides that the tax credit allowed shall be for
20 the following amounts:

21 1. After the certified equity or subordinated debt
22 investment is held for a period of two years, 20 percent of
23 the certified equity or subordinated debt investment.

24 2. After the certified equity or subordinated debt
25 investment is held for a period of four years, an additional
26 10 percent of the certified equity or subordinated debt
27 investment.

28 3. After the certified equity or subordinated debt
29 investment is held for a period of six years, an additional 10
30 percent of the certified equity or subordinated debt
31 investment.

32 4. After the certified equity or subordinated debt
33 investment is held for a period of eight years, an additional
34 10 percent of the certified equity or subordinated debt
35 investment.

1 The bill provides that any tax credit in excess of the
2 taxpayer's liability for the tax year may be credited to the
3 tax liability for the following three years or until depleted,
4 whichever is earlier. The bill provides that a taxpayer shall
5 not claim a tax credit in a single tax year of more than
6 \$50,000.

7 The bill provides that the aggregate amount of tax credits
8 issued shall not exceed a total of \$5 million. The bill
9 provides that the department of revenue and finance, in
10 consultation with the department of economic development,
11 shall develop a system for registration, authorization, and
12 redemption of tax credits issued pursuant to the bill.

13 The bill takes effect upon enactment and is retroactively
14 applicable to January 1, 2002, for tax years beginning on or
15 after that date.

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