

MAR 16 2005
WAYS AND MEANS

HOUSE FILE 796
BY COMMITTEE ON ECONOMIC GROWTH

(SUCCESSOR TO HSB 213)

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

A BILL FOR

1 An Act relating to tax credits for equity investments in
2 qualifying businesses or community-based seed capital funds.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 796

1 Section 1. Section 15E.43, subsection 4, Code 2005, is
2 amended to read as follows:

3 4. The aggregate amount of tax credits issued pursuant to
4 this division shall not exceed a total of ten million dollars.
5 The total amount of tax credits issued during the fiscal year
6 beginning July 1, 2002, shall not exceed three million
7 dollars. The total amount of tax credits issued during the
8 fiscal year beginning July 1, 2003, shall not exceed three
9 million dollars. The total amount of tax credits issued
10 during the fiscal year beginning July 1, 2004, shall not
11 exceed four million dollars. Any amount of the maximum
12 aggregate limit of tax credits that have not been issued by
13 June 30, 2005, may be issued in any subsequent fiscal year.
14 Not more than three million dollars of tax credits may be
15 issued in any one subsequent fiscal year.

16 Sec. 2. Section 15E.44, subsection 2, paragraphs b and e,
17 Code 2005, are amended to read as follows:

18 b. The business has been in operation for ~~three~~ six years
19 or less.

20 e. The business shall not have a net worth that exceeds
21 ~~three~~ ten million dollars.

22 Sec. 3. Section 15E.45, subsection 2, paragraph b, Code
23 2005, is amended to read as follows:

24 b. The fund has, on or after January 1, 2002, a total of
25 both capital commitments from investors and investments in
26 qualifying businesses of at least one hundred twenty-five
27 thousand dollars, but not more than three million dollars.
28 However, if a fund is either a rural business investment
29 company under the rural business investment program of the
30 federal Farm Security and Rural Investment Act of 2002, Pub.
31 L. No. 107-171, or an Iowa-based seed capital fund with at
32 least forty percent of its committed capital subscribed by
33 community-based seed capital funds, the fund may qualify
34 notwithstanding having capital in excess of the limits set
35 forth in this paragraph as long as the fund otherwise meets

1 the requirements of this subsection.

2 Sec. 4. Section 15E.45, subsections 6, 7, and 8, Code
3 2005, are amended to read as follows:

4 6. In the event that a community-based seed capital fund
5 fails to meet or maintain any requirement set forth in this
6 section, or in the event that at least thirty-three percent of
7 the invested capital of the community-based seed capital fund
8 has not ~~been~~ invested ~~at-least-thirty-three-percent-of-its~~
9 ~~invested-capital~~ in one or more separate qualifying
10 businesses, measured at the end of the ~~thirty-sixth~~ forty-
11 eighth month after commencing the fund's investing activities,
12 the board shall rescind any tax credit certificates issued to
13 limited partners or members and shall notify the department of
14 revenue that it has done so, and the tax credit certificates
15 shall be null and void. However, a community-based seed
16 capital fund may apply to the board for a one-year waiver of
17 the requirements of this subsection.

18 7. An investor in a community-based seed capital fund
19 shall receive a tax credit pursuant to this division only for
20 the investor's investment in the community-based seed capital
21 fund and shall not receive any additional tax credit for the
22 investor's share of investments ~~in-a-qualifying-business~~ made
23 by the community-based seed capital fund in a qualifying
24 business or in an Iowa-based seed capital fund with at least
25 forty percent of its committed capital subscribed by
26 community-based seed capital funds. However, an investor in a
27 community-based seed capital fund may receive a tax credit
28 under this division with respect to a separate direct
29 investment made by the investor in the same qualifying
30 business in which the community-based seed capital fund
31 invests.

32 8. A community-based seed capital fund shall not invest in
33 the Iowa fund of funds, if organized pursuant to section
34 15E.65, but may invest up to sixty percent of its committed
35 capital in an Iowa-based seed capital fund with at least forty

1 percent of its committed capital subscribed by community-
2 based seed capital funds.

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EXPLANATION

4 This bill relates to tax credits for equity investments in
5 qualifying businesses or community-based seed capital funds.

6 Currently, the aggregate amount of tax credits issued is
7 limited to \$10 million during the fiscal period beginning July
8 1, 2002, and ending June 30, 2005. The bill provides that any
9 amount of the maximum aggregate limit of tax credits that have
10 not been issued by June 30, 2005, may be issued in any
11 subsequent fiscal year. The bill provides that not more than
12 \$3 million of tax credits may be issued in any one subsequent
13 fiscal year.

14 Currently, certain criteria must be met for a business to
15 be a qualifying business that may receive investments that are
16 eligible for tax credits. One of the criteria is that the
17 business must have been in operation for three years or less.
18 The bill changes the three years to six years. Another
19 criteria is that the business shall not have a net worth that
20 exceeds \$3 million. The bill increases the maximum net worth
21 allowed to \$10 million.

22 Currently, there are capital commitment limits for
23 community-based seed capital funds and the requirements may be
24 waived if the fund is a rural business investment company
25 under the rural business investment program of the federal
26 Farm Security and Rural Investment Act of 2002. The bill
27 provides that the capital commitment requirements may also be
28 waived if the fund is an Iowa-based seed capital fund with at
29 least 40 percent of its committed capital subscribed by
30 community-based seed capital funds.

31 Currently, if a community-based seed capital fund has not
32 invested at least 33 percent of its invested capital in one or
33 more separate qualifying businesses, measured at the end of
34 the 36th month after commencing the fund's investing
35 activities, tax credit certificates issued for investments in

1 the fund may be rescinded. The bill changes the measurement
2 period from the 36th month to the 48th month.

3 Currently, an investor in a community-based seed capital
4 fund only receives a tax credit for the investor's investment
5 in the fund and cannot receive any additional tax credit for
6 the investor's share of investments in a qualifying business.
7 The bill provides that, in addition, the investor shall not
8 receive an additional tax credit for the investor's share of
9 investments in an Iowa-based seed capital fund with at least
10 40 percent of its committed capital subscribed by community-
11 based seed capital funds.

12 Currently, a community-based seed capital fund shall not
13 invest in the Iowa fund of funds. The bill provides, however,
14 that a community-based seed capital fund may invest up to 60
15 percent of its committed capital in an Iowa-based seed capital
16 fund with at least 40 percent of its committed capital
17 subscribed by community-based seed capital funds.

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 796 - Seed Capital Funds (LSB 1984 HV)

Analyst: Russell Trimble (Phone: (515) 281-4613) (russ.trimble@legis.state.ia.us)

Fiscal Note Version - New

Description

House File 796 does the following:

- Extends the period for which unused tax credits can be issued for equity investments in qualifying businesses or community-based seed capital funds. Currently, the aggregate amount of tax credits issued is limited to \$10.0 million during the fiscal period beginning July 1, 2002, and ending June 30, 2005. The Bill extends the period indefinitely or until the \$10.0 million limit is reached. As of March 8, 2005, the amount of tax credits issued totaled \$1.8 million.
- Caps the amount of tax credits that may be issued in any one fiscal year at \$3.0 million.
- Changes various criteria a qualifying business must meet in order to receive investments that are eligible for tax credits. The Bill changes the criteria that the business must have been in operation for three years or less to six years or less, and changes the criteria that the business shall not have a net worth that exceeds \$3.0 million by increasing the maximum net worth allowed to \$10.0 million.
- Allows capital commitment requirements to be waived if the fund is an Iowa-based seed capital fund with at least 40.0% of its committed capital subscribed by community-based seed capital funds. Currently, there are capital commitment limits for community-based seed capital funds, and the requirements may be waived only if the fund is a rural business investment company under the Rural Business Investment Program of the federal Farm Security and Rural Investment Act of 2002.
- Changes the measurement period for which a community-based seed capital fund is required to invest a certain percentage of its capital in qualifying businesses from the 36th month to the 48th month. Currently, if a community-based seed capital fund has not invested at least 33.0% of its invested capital in one or more separate qualifying businesses, measured at the end of the 36th month after commencing the fund's investing activities, tax credit certificates issued for investments in the fund may be rescinded.
- Prohibits an investor from receiving an additional tax credit for the investor's share of investments in an Iowa-based seed capital fund with at least 40.0% of its committed capital subscribed by community-based seed capital funds. Currently, an investor in a community-based seed capital fund only receives a tax credit for the investor's investment in the fund and cannot receive any additional tax credit for the investor's share of investments in a qualifying business.
- Allows a community-based seed capital fund to invest up to 60.0% of its committed capital in an Iowa-based seed capital fund with at least 40.0% of its committed capital subscribed by community-based seed capital funds. Currently, a community-based seed capital fund is prohibited from investing in the Iowa Fund of Funds.

Assumptions

1. Approximately \$8.0 million of previously authorized, un-issued tax credits will be carried forward and issued in FY 2006 and subsequent fiscal years until depleted.
2. The Department of Revenue expects HF 796 to result in an increase in tax credits issued under the Program. While there is no way to accurately measure the anticipated increase in Program utilization, the Department estimates approximately \$1.0 million in tax credits will be issued each year until depleted beginning in FY 2006.

3. A tax credit issued under this Program cannot be utilized until three years following the date of issuance. The tax credits issued in a given fiscal year will be entirely utilized in the third fiscal year from the date of issuance.

Fiscal Impact

House File 796 will reduce General Fund revenues by an estimated \$1.0 million annually for eight fiscal years beginning in FY 2009.

Source

Department of Revenue

/s/ Holly M. Lyons

March 30, 2005

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Granzow, Chr.
Soderberg
Zirchelbach

HSB 213
ECONOMIC GROWTH

HOUSE FILE _____ 0796
BY (PROPOSED COMMITTEE ON
ECONOMIC GROWTH BILL BY
CHAIRPERSON HOFFMAN)

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