

MAR 7 2006
WAYS AND MEANS

HOUSE FILE 2684
BY COMMITTEE ON ECONOMIC
GROWTH

(SUCCESSOR TO HF 2392)

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

A BILL FOR

1 An Act relating to investment tax credits for investments in
2 targeted small businesses.

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

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HF 2684

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

3 4. a. For tax credits resulting from investments in a
4 community-based seed capital fund or a qualifying business
5 under section 15E.44, subsection 2, paragraph "a", the
6 following amount of tax credits shall be issued:

7 (1) The aggregate amount of tax credits issued pursuant to
8 this division shall not exceed a total of ten million dollars.

9 (2) The total amount of tax credits issued during the
10 fiscal year beginning July 1, 2002, shall not exceed three
11 million dollars. The total amount of tax credits issued
12 during the fiscal year beginning July 1, 2003, shall not
13 exceed three million dollars. The total amount of tax credits
14 issued during the fiscal year beginning July 1, 2004, shall
15 not exceed four million dollars.

16 (3) Any amount of the maximum aggregate limit of tax
17 credits that have not been issued by June 30, 2005, may be
18 issued in any subsequent fiscal year. Not more than three
19 million dollars of tax credits may be issued in any one
20 subsequent fiscal year.

21 b. For tax credits resulting from investments in a
22 qualifying business under section 15E.44, subsection 2,
23 paragraph "b", not more than five hundred thousand dollars of
24 such tax credits may be issued during any fiscal year.

25 Sec. 2. Section 15E.44, subsection 2, Code Supplement
26 2005, is amended to read as follows:

27 2. In order to be a qualifying business, a business must
28 ~~meet-all-of-the-following-criteria~~ be one of the following:

29 a. A business that meets all of the following criteria:

30 (1) The principal business operations of the business are
31 located in this state.

32 b- (2) The business has been in operation for six years
33 or less.

34 c- (3) The business has an owner who has successfully
35 completed one of the following:

1 cannot claim tax credits for more than five different
2 investments in five different qualifying businesses.

3 The bill limits the total amount of such tax credits that
4 may be issued in one fiscal year to \$500,000.

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2684 - Angel Investor, Targeted Small Business (LSB 6305 HV)
Analyst: Ron Robinson (Phone: [515] 281-6256) (ron.robinson@legis.state.ia.us)
Fiscal Note Version - NEW

Description

House File 2684 expands the permissible use of Investment Tax Credits for investments in a community-based seed capital fund to permit investors in a targeted small business to utilize the Credits. Currently, the Investment Tax Credits are limited to a total of \$10.0 million with no more than \$3.0 million to be awarded annually. The Bill does not change the limit, however, it sets aside \$500,000 of the annual limit for targeted small businesses.

Background

There are currently 634 certified targeted small businesses.

The Credits are allowed against personal and corporate income tax, franchise tax for financial institutions, insurance premium tax, and moneys and credits tax. The Credit is equal to 20.0% of the investor's cash equity investment. To fully utilize the \$500,000 Credit award limit, investments totaling \$2.5 million would be needed annually. The Credit is available on an investor's first \$250,000 investment in a business.

The Credit must not be claimed prior to the third tax year following the investment. A total of \$3,298,916 in Investment Tax Credits has been awarded through December 31, 2005, as follows:

- FY 2002 investments to be claimed on 2005 tax returns - \$ 348,669
- FY 2003 investments to be claimed on 2006 tax returns - \$ 692,035
- FY 2004 investments to be claimed on 2007 tax returns - \$ 779,372
- FY 2005 investments to be claimed on 2008 tax returns - \$ 423,065
- FY 2006 investments to be claimed on 2009 tax returns - \$1,055,775

There remains approximately \$6.7 million of the Investment Tax Credit limit of \$10.0 million.

The annual tax credit limit of \$500,000 for investments in a targeted small business could be reached by any combination of the following investments totaling \$2.5 million:

- Two people investing \$250,000 each in five separate businesses.
- Any number of people investing smaller amounts totaling \$2.5 million. The amount would be exceeded if each of the current 634 certified targeted small businesses received a new equity cash investment of \$4,000.

Assumptions

1. All awarded Credits will be utilized the third year after the award.
2. The annual amount of cash equity invested in targeted small businesses is unknown.
3. Investors will continue to utilize on average less than \$700,000 in Credits for investments in a community-based seed capital fund annually.

4. Without the addition of the targeted small business tax credit, the Investment Tax Credit limit of \$10.0 million would be reached during FY 2019.

Fiscal Impact

The fiscal impact of HF 2684 can not be determined since the amount of investments in targeted small businesses is unknown.

However, HF 2684 will accelerate the use of the Investment Tax Credits by the amount of targeted small business tax credits used. If the maximum \$500,000 was used each year and the credits for investments in a community-based seed capital fund average approximately \$700,000 annually, General Fund revenue would be reduced by \$500,000 for each year FY 2010 through FY 2014.

General Fund revenue would increase by an estimated \$700,000 annually when the combined Credits reach a total of \$10.0 million in FY 2016 and continue through FY 2019, when the \$10.0 million limit would have been reached without the addition of the targeted small business tax credit.

The fiscal impact does not include an adjustment for "indirect" impacts on State or local revenue. Both positive and negative indirect impacts are possible. Positive indirect impacts may include employees expending salary dollars within the State and growth in other businesses created and expanded to meet the needs of the new business. Negative indirect impacts may include the effect of the new business on other Iowa businesses when competing for labor, capital, and sales, as well as the additional demand for schools, roads, police and fire protection, and other government services that necessarily result from higher levels of employment and population.

Sources

Department of Revenue
Department of Economic Development

/s/ Holly M. Lyons

April 4, 2006

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.
