VENTURE CAPITAL TAX CREDIT FOR INVESTMENTS IN QUALIFYING BUSINESSES

Prior Law

Taxpayers receiving this credit could not claim the credit until the third tax year after the year in which they made the investment. The credit could not be redeemed before January 1, 2005 and investments made before January 1, 2002 did not qualify for the credit.

In order for an equity investment to qualify for the credit the business in which the investment was made had to notify the Economic Development Authority of the names, addresses, shares issued, consideration paid for the shares, and the amount of any tax credits for all shareholders that qualified for the credit as well as the earliest year in which those shareholders could claim the credit.

Community-based seed capital funds were also required to provide the Authority with the earliest year a credit could be claimed, along with other information about their investors.

One of the requirements for a business to qualify for the purposes of this credit was that the business secure total equity or near equity financing of at least $250,000 within 24 months of the date of the first equity investments that would qualify for the credit.

The Authority would rescind any tax credits to investors in a community-based seed capital fund if the fund failed to meet or maintain any requirement within 48 months of beginning investment activities.

New Provisions

The rule that recipients of this credit must wait three tax years after making the investment to claim the credit now applies only to those who receive the credit for investment in a community-based seed capital fund.

The language that said investments made before January 1, 2002 were ineligible and that the credit could not be redeemed before January 1, 2005 is no longer relevant and has been stricken from the statute.

Tax credits for equity investments in qualifying businesses made on or after January 1, 2014 cannot be redeemed before January 1, 2016.

Businesses are no longer required to notify the Authority of the first year in which their investors will be eligible for the credit, but they must still provide the Authority with the rest of the required information (names and addresses of shareholders, etc.).

Community-based seed capital funds are no longer required to provide the Authority with the first year a credit could be claimed. They must still provide the Authority certain other information about investors, and the Authority may require other information not listed in the statute.

Businesses are no longer required to secure financing within 24 months of the first investment. They only need to have secured it. The businesses are now eligible if they have secured $250,000 in binding investment commitments, total or near equity financing, or some combination of equity financing and investment commitments.

The credit will now be rescinded if a community-based seed fund fails to meet or maintain the requirements at the end of the 36th month after their activities began, rather than the 48th month. A fund can apply for a one-year waiver of the requirements.

Sections Amended

Section 1 of 2014 Iowa Acts Senate File 2359 amends Section 15E.43, subsection 1, paragraph b, Code 2014. Section 2 of Senate File 2359 amends Section 15E.43, subsections 3 and 5, Code 2014. Section 3 of Senate File 2359 amends Section 15E.43, Code 2014 by adding new subsection 5A. Section 4 of Senate File 2359 amends Section 15E.44, subsection 2, paragraph f, Code 2014. Section 5 of Senate File 2359 amends Section 15E.44, subsection 2, paragraph f, Code 2014. Section 6 of Senate File 2359 amends Section 15E.45, subsection 3, paragraph a, subparagraph (3), Code 2014. Section 7 of Senate File 2359 amends Section 15E.45, subsection 6, Code 2014.

Effective Date

Retroactive to January 1, 2014 for all tax years beginning and investments made on or after that date.