

## Red Tape Review Rule Report (Due: September 1, 2025)

<b>Department Name:</b>	IEDA	<b>Date:</b>	6/16/25	<b>Total Rule Count:</b>	5
<b>IAC #:</b>	261	<b>Chapter/ SubChapter/ Rule(s):</b>	Chapter 56	<b>Iowa Code Section Authorizing Rule:</b>	2013 Iowa Acts, House File 648, section 9
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**PLEASE NOTE, THE BOXES BELOW WILL EXPAND AS YOU TYPE**

### What is the intended benefit of the rule?

The intended benefit of chapter 56 is to describe the policies and procedures applicable to the Employee Stock Ownership (ESOP) Formation Assistance Program. The program reimburses part of the cost of a feasibility study for businesses interested information an ESOP.

### Is the benefit being achieved? Please provide evidence.

Yes. The authority is able to effectively award and administer the program.

### What are the costs incurred by the public to comply with the rule?

Entities interested in applying for the program may require staff time to complete an application to receive an award. Recipients of financial assistance may similarly incur costs to comply with reporting and monitoring requirements of the program. Some applicants/recipients may choose to rely on an external service provider to complete these tasks. The amount of the costs will vary, depending on the compensation of staff or service providers involved. The application and reports require minimal time to complete.

### What are the costs to the agency or any other agency to implement/enforce the rule?

IEDA staff time is required to review and prepare applications for approval, draft and execute program contracts, disburse funds, review reports, and communicate with program applicants and recipients.

### Do the costs justify the benefits achieved? Please explain.

Yes. Only entities that will potentially benefit from the program incur any costs. The costs to the state to administer the program are proportional to the activities incented.

### Are there less restrictive alternatives to accomplish the benefit? ☐ YES ☒ NO

If YES, please list alternative(s) and provide analysis of less restrictive alternatives from other states, if applicable. If NO, please explain.

The application and administrative requirements of the rules are no more than necessary to implement the purposes of the program.

**Does this chapter/rule(s) contain language that is obsolete, outdated, inconsistent, redundant, or unnecessary language, including instances where rule language is duplicative of statutory language? [list chapter/rule number(s) that fall under any of the above categories]**

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Yes.

Rule 56.1 is unnecessary and can be rescinded.

Rule 56.2 should be updated to eliminate an outdated reference to a department of revenue rule that has been rescinded.

Rule 56.3 is primarily unnecessary and can be rescinded. The description of the application process and limitations on financial assistance can be added to rules 56.4 and 56.5.

Rule 56.4 should be updated to be more concise and incorporate a description of the application process and limitations on financial assistance.

Rule 56.5 will be updated to be more concise and to incorporate information about disbursement of funds.

Rules throughout the chapter should be renumbered due to the rescission of rules 56.1 and 56.3.

**RULES PROPOSED FOR REPEAL (list rule number[s]):**

56.1  
56.3

**\*RULES PROPOSED FOR RE-PROMULGATION\* (list rule number[s] or include text if available):**

CHAPTER 56  
EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) FORMATION ASSISTANCE

**261—56.1(85GA,HF648) Definitions.** For purposes of this chapter, unless the context otherwise requires:

“*Agreement*” means a contract for financial assistance under the program describing the terms on which the financial assistance is to be provided.

“*Applicant*” means a business applying for assistance under the program.

“*Authority*” means the economic development authority created in Iowa Code section 15.105.

“*Business*” means a corporation eligible to become a qualified Iowa ESOP.

“*Director*” means the director of the authority.

“*Financial assistance*” means a payment made by the authority to an applicant approved for funding under the program.

“*Program*” means the ESOP formation assistance program established pursuant to this chapter.

“*Qualified Iowa ESOP*” means an employee stock ownership plan, as defined in Section 4975(e)(7) of the Internal Revenue Code, and trust that are established by an Iowa corporation for the benefit of the employees of the corporation.

**261—56.2(85GA,HF648) Program eligibility, application, and funding decisions.**

**56.2(1) *Program eligibility.*** To be eligible under the program, an applicant shall meet all of the following requirements:

- a. The business is interested in establishing an ESOP.
- b. The business is, or documents intent to become, an IRS subchapter C or subchapter S corporation.
- c. The business has a valuation that is sufficient to make an ESOP feasible. A business with valuation less than \$5 million is generally not considered a feasible candidate for an ESOP.
- d. The business has a number of employees, eligible employee types, and a total payroll that are sufficient to make an ESOP feasible. A business with fewer than 25 full-time, permanent employees is generally not considered a feasible candidate for an ESOP.
- e. The applicant shall have a cash flow level sufficient to make an ESOP feasible. A business with cash flow less than \$500,000 is generally not considered a feasible candidate for an ESOP.
- f. The business is not a business engaged in the business of sale at retail of tangible personal property or taxable services in this state or online. “Sale at retail” means the same as defined in Iowa Code section 423.1(46). Any business obligated to collect sales or use tax under Iowa Code chapter 423 may be ineligible pursuant to this paragraph.
- g. The business is not a publicly traded company.
- h. The business has not completed a feasibility study for purposes of exploring formation of a qualified Iowa ESOP in the three years prior to application for the program.

**56.2(2) *Application.*** The authority will accept applications for the program on a rolling basis. Information on submitting an application is available on the authority’s website.

**56.2(3) *Application scoring.*** The authority may engage outside experts for assistance in evaluating the applications as needed. An applicant may be required to interview with authority staff or outside experts engaged by the authority. Authority staff will score applications based on extent to which an applicant is a feasible candidate to form a qualified Iowa ESOP. The authority will keep records of the scoring process and make those records available to applicants.

**56.2(4) *Funding decisions.*** The director will make the final funding decision on each application, taking into consideration the score and the funding recommendation of authority staff. The director may not approve funding for an application that receives an average score of less than 50 points.

**56.2(5) *Amount of assistance.*** An applicant to the program may be approved for financial assistance in an amount equal to 50 percent of the cost incurred for obtaining a feasibility study conducted by an independent financial professional. The total amount of financial assistance provided to an applicant will not exceed \$25,000.

**261—56.3(85GA,HF648) Contract and disbursement.**

**56.3(1)** Each applicant that is approved for financial assistance under the program shall enter into an agreement with the authority to establish the terms on which the financial assistance is to be provided.

**56.3(2)** The authority may reimburse a business for up to 25 percent of the cost of a feasibility study upon completion of the feasibility study. The authority may reimburse a business for up to 25 percent of the cost of a feasibility study upon formation of a qualified Iowa ESOP. The business must document the costs incurred and completion of all necessary transactions to the satisfaction of the authority prior to disbursement. Costs incurred prior to approval of financial assistance will not be eligible for reimbursement.

These rules are intended to implement 2013 Iowa Acts, House File 648, section 9.

***\*For rules being re-promulgated with changes, you may attach a document with suggested changes.***

**METRICS**

<b>Total number of rules repealed:</b>	<b>2</b>
<b>Proposed word count reduction after repeal and/or re-promulgation</b>	<b>570</b>
<b>Proposed number of restrictive terms eliminated after repeal and/or re-promulgation</b>	<b>23</b>

**ARE THERE ANY STATUTORY CHANGES YOU WOULD RECOMMEND INCLUDING CODIFYING ANY RULES?**

Yes, the program should be codified in Iowa Code section 15.108(10)“f” where IEDA’s additional responsibilities relating to employee-owned businesses are referenced. Financial assistance should be provided in the form of a grant.