FEB 4 1998

WAYS AND MEANS

HOUSE FILE 2144

BY LARSON

Passed House, Date ____________ Passed Senate, Date ____________

Vote: Ayes ______ Nays ______ Vote: Ayes ______ Nays ______

Approved ____________________________

A BILL FOR

An Act providing a small business tax credit.

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

TLSB 3360HH 77

tm/sc/14

HF 2144

S.F. ______ H.F. 2144

Section 1. Section 422.4, Code Supplement 1997, is amended by adding the following new subsection:

NEW SUBSECTION. 15A. "Small business" means any corporation, partnership, sole proprietorship, or other business entity qualifying as "small" under the standards contained in the Code of Federal Regulations, Title 13, part 121.

Sec. 2. NEW SECTION. 422.12F SMALL BUSINESS TAX CREDIT.

A small business formed under the laws of this state and operating within the state is entitled to claim a small business tax credit against the taxes imposed under this division equal to any amount paid to the United States small business administration as a guaranty fee in order to obtain small business administration guaranteed financing. The credit shall be applicable only to the tax year in which the guaranty fee was paid and shall be claimed only by the small business which is the primary obligor in the financing transaction and which actually paid the guaranty fee. Any credit in excess of the tax liability is nonrefundable and shall not be carried back or forward.

Sec. 3. Section 422.32, Code Supplement 1997, is amended by adding the following new subsection:

NEW SUBSECTION. 7A. "Small business" means any corporation, partnership, sole proprietorship, or other business entity qualifying as "small" under the standards contained in the Code of Federal Regulations, Title 13, part 121.

Sec. 4. Section 422.33, Code Supplement 1997, is amended by adding the following new subsection:

NEW SUBSECTION. 8. A small business formed under the laws of this state and operating within the state is entitled to claim a small business tax credit against the taxes imposed under this division equal to any amount paid to the United States small business administration as a guaranty fee in order to obtain small business administration guaranteed financing. The credit shall be applicable only to the tax year in which the guaranty fee was paid and shall be claimed only by the small business which is the primary obligor in the financing transaction and which actually paid the guaranty fee. Any credit in excess of the tax liability is nonrefundable and shall not be carried back or forward.

EXPLANATION

This bill provides a small business tax credit to apply against personal income tax liability or corporate tax liability. Only a small business which is a corporation, partnership, sole proprietorship, or other business entity qualifying as "small" under the standards contained in the Code of Federal Regulations, Title 13, part 121, is eligible. The small business must be formed under Iowa law and must be operating within Iowa. The amount of the credit is equal to any amount paid to the United States small business administration as a guaranty fee in order to obtain small business administration guaranteed financing. The credit is only applicable to the tax year in which the guaranty fee was paid. The bill provides that the credit shall be claimed only by the small business which is the primary obligor in the financing transaction and which actually paid the guaranty fee. Any credit in excess of the tax liability is nonrefundable and shall not be carried back or forward.

HOUSE FILE 2144
FISCAL NOTE

A fiscal note for **House File 2144** is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

House File 2144 provides a small business tax credit equal to the amount of the guaranty fee paid by a small business as part of a Small Business Administration (SBA) guaranteed loan. The credit may not be carried forward and may not be used to reduce tax liability below zero.

ASSUMPTIONS

1. The guaranty fee is typically 2.0% to 3.9% of the loan value.
2. The amount of SBA loans in Iowa from 1994 to 1996 ranged from $98.3 to $132.6 million.
3. The amount of SBA guaranty fees paid by Iowa businesses from 1994 to 1996 ranged from $1.3 million to $1.5 million.
4. The number of SBA loans subject to the guaranty fee will remain roughly constant.
5. The businesses will utilize 30.0% of the guaranty fee as a tax credit in a single year.

FISCAL EFFECT

The fiscal effect of HF 2144 is a reduction in General Fund revenues of approximately $450,000 each year beginning in FY 1999.

SOURCE

U.S. Small Business Administration

(LSB 3360hh, LCS)

FILED MARCH 4, 1998 BY DENNIS PROUTY, FISCAL DIRECTOR