

MAR 22 2000

WAYS & MEANS CALENDAR

HOUSE FILE 2547
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HF 738)

(SUCCESSOR TO HF 262)

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

A BILL FOR

1 An Act establishing a tax credit against individual and corporate
2 income tax liability for small business guaranty fees paid and
3 including a retroactive applicability date provision.

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

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HF 2547

1 Section 1. NEW SECTION. 422.11D SMALL BUSINESS GUARANTY
2 FEE TAX CREDIT.

3 The taxes imposed under this division shall be reduced by a
4 small business guaranty fee tax credit. The amount of the
5 credit is equal to any amount paid to the United States small
6 business administration as a guaranty fee in order to obtain
7 small business administration guaranteed financing. However,
8 the amount of the credit shall not exceed two percent of the
9 first one hundred thousand dollars of guaranteed financing.
10 The credit shall be applicable to the tax year in which the
11 guaranty fee was paid and shall be claimed only by the small
12 business operating within the state which is the primary
13 obligor in the financing transaction and which actually paid
14 the guaranty fee. Any credit in excess of the tax liability
15 is nonrefundable but may be carried forward for up to four tax
16 years or until depleted. If the small business elects to take
17 the tax credit under this section, the small business shall
18 not deduct for Iowa tax purposes any amount of the small
19 business administration guaranty fee deducted for federal
20 income tax purposes.

21 For purposes of this section, an individual may claim the
22 small business guaranty fee tax credit allowed a partnership,
23 S corporation, limited liability company, estate, or trust
24 electing to have the income taxed directly to the individual.
25 The amount claimed by the individual shall be based upon the
26 pro rata share of the individual's earnings of the
27 partnership, S corporation, limited liability company, or
28 estate, or trust.

29 For purposes of this section, "small business" means a
30 corporation, partnership, sole proprietorship, limited
31 liability company, or other business entity qualifying as
32 "small" under the standards contained in 13 C.F.R., pt. 121.

33 Sec. 2. Section 422.33, Code Supplement 1999, is amended
34 by adding the following new subsection:

35 NEW SUBSECTION. 9. A small business operating within the

1 state is entitled to claim a small business guaranty fee tax
2 credit against the taxes imposed under this division equal to
3 any amount paid to the United States small business
4 administration as a guaranty fee in order to obtain small
5 business administration guaranteed financing. However, the
6 amount of the credit shall not exceed two percent of the first
7 one hundred thousand dollars of guaranteed financing. The
8 credit shall be applicable to the tax year in which the
9 guaranty fee was paid and shall be claimed only by the small
10 business which is the primary obligor in the financing
11 transaction and which actually paid the guaranty fee. Any
12 credit in excess of the tax liability is nonrefundable but may
13 be carried forward for up to four tax years or until depleted.
14 If the small business elects to take the small business
15 guaranty fee tax credit, the small business shall not deduct
16 for Iowa tax purposes any amount of the small business
17 administration guaranty fee deducted for federal income tax
18 purposes.

19 For purposes of this subsection, "small business" means a
20 corporation, partnership, sole proprietorship, limited
21 liability company, or other business entity qualifying as
22 "small" under the standards contained in 13 C.F.R., pt. 121.

23 Sec. 3. RETROACTIVE APPLICABILITY DATE. This Act applies
24 retroactively to January 1, 2000, for tax years beginning on
25 or after that date.

26 EXPLANATION

27 This bill provides a small business guaranty fee tax credit
28 to apply against personal income tax liability or corporate
29 tax liability. Only a small business which is a corporation,
30 partnership, sole proprietorship, limited liability company,
31 or other business entity qualifying as "small" under the
32 standards contained in 13 C.F.R., pt. 121, is eligible. The
33 small business must be operating within Iowa. The amount of
34 the credit that may be claimed is equal to any amount paid to
35 the United States small business administration as a guaranty

1 fee in order to obtain small business administration
2 guaranteed financing. The amount of the credit cannot exceed
3 two percent of the first \$100,000 of guaranteed financing,
4 however. The credit is applicable to the tax year in which
5 the guaranty fee was paid. The bill provides that the credit
6 shall be claimed only by the small business which is the
7 primary obligor in the financing transaction and which
8 actually paid the guaranty fee. Any credit in excess of the
9 tax liability is nonrefundable but may be carried forward for
10 up to four tax years or until depleted.

11 The bill applies retroactively to January 1, 2000, for tax
12 years beginning on or after that date.

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**HOUSE FILE 2547
FISCAL NOTE**

A fiscal note for House File 2547 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 2547 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, not to exceed 2.0% of the first \$100,000 of guaranteed financing. The credit may be carried forward up to four years, but 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 1999 ranged from \$80.5 to \$132.6 million.
3. The amount of SBA guaranty fees paid by Iowa businesses from 1994 to 1999 ranged from \$900,000 to \$1.5 million.
4. The number of SBA loans subject to the guaranty fee will remain constant.
5. The businesses will utilize the guaranty fee tax credit over four years in the following amounts: 10.0% in year one, 20.0% in year two, 30.0% in year three, and 40.0% in year four.
6. The 2.0% credit limitation on the first \$100,000 of financing will reduce the average credit amount by 26.0% compared to a full-value credit.

FISCAL EFFECT

House File 2547 will result in a decrease in General Fund revenues of approximately \$111,000 in FY 2001, \$333,000 in FY 2002, \$666,000 in FY 2003, and \$1.1 million in FY 2004.

SOURCE

U.S. Small Business Administration

(LSB 7204HV, SLS)

FILED APRIL 3, 2000

BY DENNIS PROUTY, FISCAL DIRECTOR