

FEB 11 1999
WAYS AND MEANS

HOUSE FILE 262
BY LORD and LARSON

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 262

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. 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 operating within the state which is the primary
11 obligor in the financing transaction and which actually paid
12 the guaranty fee. Any credit in excess of the tax liability
13 is nonrefundable but may be carried forward for up to four tax
14 years or until depleted. If the small business elects to take
15 the tax credit under this section, the small business shall
16 not deduct for Iowa tax purposes any amount of the small
17 business administration guaranty fee deducted for federal
18 income tax purposes.

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

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

31 Sec. 2. Section 422.33, Code 1999, is amended by adding
32 the following new subsection:

33 NEW SUBSECTION. 8. A small business operating within the
34 state is entitled to claim a small business guaranty fee tax
35 credit against the taxes imposed under this division equal to

1 any amount paid to the United States small business
2 administration as a guaranty fee in order to obtain small
3 business administration guaranteed financing. The credit
4 shall be applicable to the tax year in which the guaranty fee
5 was paid and shall be claimed only by the small business which
6 is the primary obligor in the financing transaction and which
7 actually paid the guaranty fee. Any credit in excess of the
8 tax liability is nonrefundable but may be carried forward for
9 up to four tax years or until depleted. If the small business
10 elects to take the small business guaranty fee tax credit, the
11 small business shall not deduct for Iowa tax purposes any
12 amount of the small business administration guaranty fee
13 deducted for federal income tax purposes.

14 For purposes of this subsection, "small business" means a
15 corporation, partnership, sole proprietorship, limited
16 liability company, or other business entity qualifying as
17 "small" under the standards contained in 13 C.F.R., pt. 121.
18 Sec. 3. RETROACTIVE APPLICABILITY DATE. This Act applies
19 retroactively to January 1, 1999, for tax years beginning on
20 or after that date.

21 EXPLANATION

22 This bill provides a small business guaranty fee tax credit
23 to apply against personal income tax liability or corporate
24 tax liability. Only a small business which is a corporation,
25 partnership, sole proprietorship, limited liability company,
26 or other business entity qualifying as "small" under the
27 standards contained in 13 C.F.R., pt. 121, is eligible. The
28 small business must be operating within Iowa. The amount of
29 the credit is equal to any amount paid to the United States
30 small business administration as a guaranty fee in order to
31 obtain small business administration guaranteed financing.
32 The credit is applicable to the tax year in which the guaranty
33 fee was paid. The bill provides that the credit shall be
34 claimed only by the small business which is the primary
35 obligor in the financing transaction and which actually paid

1 the guaranty fee. Any credit in excess of the tax liability
2 is nonrefundable but may be carried forward for up to four tax
3 years or until depleted.

4 The bill applies retroactively to January 1, 1999, for tax
5 years beginning on or after that date.

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**HOUSE FILE 262
FISCAL NOTE**

A fiscal note for House File 262 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 262 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 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 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 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.

FISCAL EFFECT

The fiscal effect of HF 262 is a reduction in State General Fund revenues of approximately \$150,000 in FY 2000, \$450,000 in FY 2001, \$900,000 in FY 2002, and \$1.5 million in FY 2003.

SOURCE

U.S. Small Business Administration

(LSB 1938hh, LCS)

FILED MARCH 1, 1999

BY DENNIS PROUTY, FISCAL DIRECTOR