

MAR 19 1999

WAYS & MEANS CALENDAR

HOUSE FILE 738

BY COMMITTEE ON WAYS AND MEANS

(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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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 1999, is amended by adding  
34 the following new subsection:

35 NEW SUBSECTION. 8. 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, 1999, for tax years beginning on  
25 or after that date.

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#### 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, 1999, for tax  
12 years beginning on or after that date.

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**HOUSE FILE 738  
FISCAL NOTE**

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A fiscal note for House File 738 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.

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House File 738 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 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.
6. The 2.0% credit limitation on the first \$100,000 of financing will reduce the average credit amount by 23.0% compared to a full-value credit.

**FISCAL EFFECT**

The fiscal effect of House File 738 is a reduction in General Fund revenues of approximately \$115,500 in FY 2000, \$346,500 in FY 2001, \$693,000 in FY 2002, and \$1.2 million in FY 2003.

**SOURCE**

U.S. Small Business Administration

(LSB 1938hv, LCS)

FILED MARCH 22, 1999

BY DENNIS PROUTY, FISCAL DIRECTOR