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FISCAL IMPACT REPORT

SPONSOR: Maes DATE TYPED: 2/14/01 HB _____
 SHORT TITLE: Qualified Small Business or Farm Tax Credit SB 426
 ANALYST: Rael

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
	\$ (1,400.0)		Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

Department of Agriculture (DOA)
 Taxation and Revenue Department (TRD)
 Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

The Qualified Small Business or Farm Tax Credit Act amends the Income Tax Act and the Corporate Income and Franchise Tax Act to allow individuals and corporations to receive a tax credit equal to the guaranty fee paid on a federally guaranteed loan. The amount of the credit may not exceed \$4.0. The amount may *only* be deducted from the taxpayer's liability but may be carried forward for four consecutive taxable years.

Significant Issues

The Taxation and Revenue Department reports that since the guaranty fee is deductible as a normal business expense, the credit represents a "double dip" of at least a portion of the guarantee fee.

FISCAL IMPLICATIONS

The estimated revenue impact is \$1,400. The Small Business Administration approved 43,639 loans in FY 1999 with a total value of \$10.15B. The New Mexico population is probably more likely than other states' population to receive these loans. If we assume 1.5 times our population ratio of .646% (2000 Census), then 423 New Mexico small business were approved for \$98,400.0 in FY 1999. This is an average loan of \$232.6. Approximately 35% of guaranteed loans are for \$150.0 and the remainder are for a larger amount. Total estimated guaranty fees are \$2,800.0 for this population. Assuming that the

credit is limited to \$4.0 per loan approval, and that all credit may be used for large liability loans while ½ the credit will be rolled forward for smaller loans, the credit will be approximately \$1,400.0.

ADMINISTRATIVE IMPLICATIONS

The TRD reports that certain forms, instructions and computer system changes would be necessary, but the administrative impact would be minimal.

OTHER SUBSTANTIVE ISSUES

Beginning December 22, 2000, the federal Small Business Administration began imposing and collecting a fee on small business loan guarantees. The fee for loans under \$150.0 is 2% while the fee for loans from \$150.0 to \$700.0 is 3%. This bill will cover the entire loan fee for a loan up to \$150.0. A \$151.0 loan would have a 3% fee of \$4.5, of which only \$4.0 would be covered.

Loan guaranty fees are usually deducted from the proceeds of the loan. For tax purposes, this fee may be amortized over the life of the loan, but in most cases is probably deducted in the year the loan is executed. For a corporate business (Sub-S or LLC) whose owners are in the 28% federal bracket and the top state marginal bracke, the \$4.0 deduction on the guarantee fee paid on a \$150.0 loan is worth \$1.4 in addition to the \$3.0 credit on an expenditure of \$3.0. Similar calculations apply for other loan and tax scenarios.

The Department of Agriculture reports that total cash receipts for crops declined by 6% in 1998 and 3% in 1999.

FAR/njw