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## FISCAL IMPACT REPORT

SPONSOR: Maes DATE TYPED: 2/14/03 HB \_\_\_\_\_

SHORT TITLE: Small Business and Farm Income Tax Credit SB 428

ANALYST: smith

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(2,000.0)	(2,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

Responses Received From

TRD

### SUMMARY

#### Synopsis of Bill

Senate Bill 428 adds a new section to the New Mexico Personal Income Tax Act – Chapter 7, Article 2 NMSA 1978. The new section would provide a credit in the amount of the guarantee fee paid on a federally guaranteed loan. The fees are applicable to loans provided for business expenses associated with small businesses or farms. The credit could not exceed \$5,000 per tax return. Taxpayers would be allowed to claim the credits for the tax year in which the guarantee fee paid on a federally guaranteed loan is paid. Unused portions of the credit may be carried forward for four consecutive tax years. “Federally guaranteed loan” is defined as a loan obtained by a small business or farm that is guaranteed by the Small Business Administration (“SBA”), the US Department of Agriculture’s Farm Service Agency, Rural Development Program, or the federally chartered Enchantment Land Certified Development Corporation. The term “small business or farm” is defined as “a corporation, partnership, sole proprietorship, farm business or other business in the state that qualifies for a federally-chartered loan.

## **FISCAL IMPLICATIONS**

TRD notes that the figure shown above should be viewed as a preliminary estimate, because representatives of all agencies that make loans are not able to provide information immediately. Representatives of the Farm Service Agency report that last year the agency made 72 guaranteed loans totaling \$19 million. The typical guarantee is for 90 percent of the loan, hence the average loan was \$260,000. The guarantee fee imposed by the agency is typically 1 percent of 90 percent of the loan. Hence the guarantee on a \$260,000 loan would be approximately \$2,340. Loan guarantees totaled approximately \$168,480 for that particular agency. Borrowers typically pay the guarantees with borrowed funds. Representatives of the SBA report that they made approximately \$71 million worth of loans last year, on which approximately \$1.5 million in fees were paid. The fiscal impact reflects the combined value of the \$170,000 figure provided by the Farm Service Agency multiplied by a factor of three to reflect the other eligible agencies, plus the \$1.5 million reported by the Small Business Administration.

## **OTHER SUBSTANTIVE ISSUES**

TRD notes that the fees that are targeted for an income tax credit in the proposal are currently deductible from taxable income. The proposal does not modify this deduction. Thus, if adopted, the proposal would provide a “double-dip”, i.e. a credit equal to the total amount of the fees paid up to the \$5,000 limit plus a deduction from taxable income. Thus, the taxpayer would be reimbursed more than the original amount paid up the \$5,000 limit. This is a generous use of tax incentives.

**SS/njw**