

**Department of Legislative Services**  
 Maryland General Assembly  
 2011 Session

**FISCAL AND POLICY NOTE**

Senate Bill 727 (Senator Simonaire, *et al.*)  
 Budget and Taxation

**Small Business Growth Initiative**

This bill creates a State income tax credit for the amount of a guaranty fee paid by a small business in order to obtain guaranteed financing from the U.S. Small Business Administration (SBA). The credit allowed may not exceed the State income tax imposed in the taxable year, but any unused amount of the credit may be carried forward to five succeeding taxable years.

The bill takes effect July 1, 2011, and applies to tax year 2011 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues will decrease by \$2.3 million in FY 2012 as a result of credits claimed by eligible small businesses. Future years reflect a constant amount of guaranty fees paid and credits carried over from previous tax years. General fund expenditures increase by \$40,000 in FY 2012 for one-time tax form changes and computer programming modifications at the Comptroller’s Office.

(\$ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	(\$2.3)	(\$2.6)	(\$3.0)	(\$3.4)	(\$3.8)
GF Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$2.3)	(\$2.6)	(\$3.0)	(\$3.4)	(\$3.8)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None.

**Small Business Effect:** Potential meaningful. Small businesses that claim the credit will benefit from the decreased cost of receiving SBA-approved loans.

## Analysis

**Current Law:** No similar State income tax credit exists, although the amount of guaranty fee paid is eligible to be deducted for federal income tax purposes, typically resulting in a lower federal and State income tax liability.

**Background:** SBA does not loan money directly to small business owners but instead provides loan guarantees. SBA sets the guidelines for loans, which are made by its partners (lenders, community development organizations, and microlending institutions). SBA guarantees that these loans will be repaid, eliminating a portion of the risk to lending partners. When a business applies for a commercial loan, structured according to SBA requirements with an SBA guarantee, SBA typically charges a guaranty fee equal to a percentage of the value of the loan. The SBA Baltimore City District Office advises that most loans have a guaranty fee equal to 2% to 3% of the loan value. In federal fiscal 2008 through 2010, the district office guaranteed on average 554 loans totaling \$104 million. Over a five-year period, an average of \$208.9 million in loans for all Maryland small businesses has been approved.

Other states provide a tax credit for the amount of SBA guaranty fees paid by a small business or banking institution; these states include Connecticut and Oklahoma.

**State Revenues:** The bill establishes a credit against the State income tax for the amount of guaranty fee paid by a small business in order to obtain guaranteed financing from the SBA beginning in tax year 2011. Based on the amount of SBA loans approved over a five-year period, a total of \$4.2 million in credits may be claimed if all of the guaranty fees are paid by small businesses. The value of the credit may not exceed the tax liability imposed in the tax year; so it is assumed that a little more than one-half of the credit is claimed in the first tax year with the remaining amount claimed in successive tax years. As a result, general fund revenues will decrease by \$2.3 million in fiscal 2012, \$2.6 million in fiscal 2013, \$3.0 million in fiscal 2014, \$3.4 million in fiscal 2015, and \$3.8 million in fiscal 2016. It is assumed that small businesses will file under the personal income tax and not the corporate income tax.

**State Expenditures:** The Comptroller's Office reports that it will incur a one-time expenditure increase of \$40,000 in fiscal 2012 to add the tax credit to the income tax forms. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

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## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Connecticut Department of Revenue Services, Moody's.com, Oklahoma Tax Commission, U.S. Small Business Administration, Department of Legislative Services

**Fiscal Note History:** First Reader - March 16, 2011  
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