CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 16, 2018

H.R. 4267
Small Business Credit Availability Act

As ordered reported by the House Committee on Financial Services on November 15, 2017

SUMMARY

H.R. 4267 would direct the Securities and Exchange Commission (SEC) to amend certain regulations that affect business development companies (BDCs)—companies that operate like mutual funds to invest in the stocks of small private companies and that offer significant managerial assistance to issuers. H.R. 4267 would raise the limits on the amount of leverage allowed to a BDC if it met certain requirements. The bill also would eliminate the exclusion of a BDC from qualifying as a well-known seasoned issuer (WKSI).[1]

The staff of the Joint Committee on Taxation (JCT) estimates that enacting H.R. 4267 would reduce federal revenues by $33 million over the 2018-2028 period; therefore, pay-as-you-go procedures apply. Enacting the bill would not affect direct spending.

Using information from the SEC, CBO estimates that implementing H.R. 4267 would cost less than $500,000 to amend certain regulations affecting BDCs and WKSIs. However, the SEC is authorized to collect fees sufficient to offset its annual appropriation; therefore, CBO estimates that the net effect on discretionary spending would be negligible.

CBO estimates that enacting H.R. 4267 would not affect direct spending and would not increase on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2028.

H.R. 4267 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

1. Under current law, the SEC allows certain public companies, called WKSIs, to use streamlined registration and reporting procedures when issuing securities.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 4267 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce).

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
DECREASES IN REVENUES												
Estimated Revenues	*	*	-1	-3	-5	-6	-6	-6	-4	*	-15	-33

Components may not sum to totals because of rounding; * = between -$500,000 and zero.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 4267 will be enacted near the end of fiscal year 2018, that the necessary amounts will be appropriated near the start of each year, and that spending will follow historical patterns for the SEC.

Revenues

JCT estimates that revenue losses under H.R. 4267 would result from a shift in business lending and taxable income from C corporations to BDCs, which are pass-through entities for tax purposes. Specifically, H.R. 4267 would allow BDCs to take on additional debt, increasing the amount they can borrow to a maximum of $4 for every $6 in assets. Under current law, a BDC can borrow up to $3 for every $6 it holds in assets.

Generally, the income of interests in pass-through entities (such as BDCs) that are owned by individual taxpayers is treated as personal income. That income is subject only to the individual income tax, and it is taxed at the personal income tax rate of the businesses' owners. In contrast, taxable income from C corporations is subject to the corporate income tax, and it can be taxed again at the individual level after distribution to shareholders or investors. JCT estimates that, by effectively shifting income from C corporations to BDCs, the bill would reduce tax revenues by $33 million over the 2018-2027 period.

Spending Subject to Appropriation

Using information from the SEC, CBO estimates that implementing H.R. 4267 would cost less than $500,000 each year to amend certain regulations affecting BDCs and WKSIs. However, the SEC is authorized to collect fees sufficient to offset its annual appropriation; therefore, CBO estimates that any net effect on discretionary spending from implementing the bill would be negligible, assuming appropriation actions consistent with that authority.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 4267, the Small Business Credit Availability Act, as Ordered Reported by the House Committee on Financial Services on November 15, 2017

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
	NET INCREASE IN THE DEFICIT											
Statutory Pay-As-You-Go Impact	0	0	1	3	5	6	6	6	4	0	15	33

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO and JCT estimate that enacting H.R. 4267 would not affect direct spending and would not increase on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2028.

MANDATES

H.R. 4267 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

ESTIMATE PREPARED BY

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