CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

Revised June 30, 2014

H.R. 1800
Small Business Credit Availability Act

As ordered reported by the House Committee on Financial Services on November 13, 2013

SUMMARY

H.R. 1800 would direct the Securities and Exchange Commission (SEC) to amend certain regulations that affect business development companies (BDCs)—companies that operate like a mutual fund to invest in the stocks of small, private companies and offer significant managerial assistance to the issuer. H.R. 1800 would allow BDCs to invest in advisors to investment companies and would raise the limits on the amount of leverage allowed to a BDC.

The staff of the Joint Committee on Taxation (JCT) estimates that enacting H.R. 1800 would reduce federal revenues by $81 million over the 2014-2024 period; therefore, pay-as-you-go procedures apply. CBO estimates that enacting H.R. 1800 would not affect direct spending.

Further, CBO estimates that implementing H.R. 1800 would increase spending by the Securities and Exchange Commission (SEC) by less than $500,000 per year to amend certain regulations affecting BDCs. However, the SEC is authorized to collect fees sufficient to offset its annual appropriation; therefore, CBO estimates that the net effect on spending would be negligible.

H.R. 1800 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 1800 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2014-2019	2014-2024
CHANGES IN REVENUES[a]													
Estimated Revenues	*	-1	-3	-5	-6	-8	-9	-10	-11	-12	-14	-24	-81

Note: Details do not add to totals because of rounding; * = less than $500,000.

a. Negative numbers denote decreases in revenues.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the necessary amounts will be appropriated near the start of each year, and that spending will follow historical patterns for the SEC.

Revenues

The staff of the Joint Committee on Taxation estimates that revenue losses under H.R. 1800 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. 1800 would allow BDCs to increase leverage from 150 percent to 200 percent of a company's net assets. The bill also would allow BDCs to issue preferred stock, and BDCs would be able to finance financial institutions or invest in a registered investment advisor. Income of interests in pass-through entities that are owned by individual taxpayers generally is treated as personal income: It is subject only to the individual income tax, and it is taxed at the personal income tax rates of the businesses' owners. In contrast, taxable income from C corporations is subject to the corporate income tax, and that income can be taxed again at the individual tax level after it is distributed to shareholders or investors. JCT estimates that by shifting income from C corporations, enacting this legislation would reduce revenues by $81 million over the 2014-2024 period.

Spending Subject to Appropriation

Based on information from the SEC, CBO expects that the agency would need the equivalent of two additional staff positions to meet the bill's deadline for issuing new regulations and to monitor compliance with those regulations once finalized. CBO estimates that implementing the provisions of H.R. 1800 would cost less than $500,000 per year. Further, the SEC is authorized to collect fees sufficient to offset its appropriation each year. Therefore, CBO estimates that implementing H.R. 1800 would have a negligible effect on net outlays each year, assuming appropriation actions consistent with the agency's 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 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. 1800, as ordered reported by the House Committee on Financial Services on November 13, 2013

	By Fiscal Year, in Millions of Dollars												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2014-2019	2014-2024
INCREASE IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	1	3	5	6	8	9	10	11	12	14	24	81

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1800 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

This revised cost estimate for H.R. 1800 supersedes a CBO cost estimate transmitted on April 10, 2014, for the bill as ordered reported by the House Committee on Financial Services on November 13, 2013. The staff of the Joint Committee on Taxation has revised this estimate to reflect information that was made available after the original cost estimate was completed. That data shows that the overlap between assets held by business development corporations and banks is smaller than implied by information available at the time of the original cost estimate.

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