

U.S. Senator

TOM HARKIN OF IOWA



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HARKIN: ECONOMIC RECOVERY ACT WILL HELP SMALL BUSINESSES

“We are in the grips of a destructive recession that has shaken people’s confidence in America’s economic system. People are hurting. Millions have lost their jobs, retirement savings and access to health care. It took many years of flawed policies and reckless behaviors to get us into the current economic mess and recovery will not happen overnight.”

“The economic recovery package is designed to kick the economy back into gear by putting people to work, by avoiding loss of jobs and also to build for the long term. Helping business is a key part of that effort”– Senator Tom Harkin.

Below are some of the key programs that provide direct help to small business in the Small Business Administration, USDA and the tax code.

Temporary SBA Fee Relief: The bill allocates \$375 million to allow for temporary waivers or reductions in the fees the SBA charges to lenders and borrowers in its loan guarantee and loan programs, the 7(a) and 504 loan programs. When determining the amount and structure of the waivers or reductions, the bill requires the SBA to give borrowers and smaller banks priority in receiving fee relief.

Temporary Increase in SBA Guarantee Levels: The bill allows the SBA to – on a case by case basis – temporarily raise the guarantee level (up to 90%) for its loan guarantees. Currently, the maximum guarantee levels are 75% for loans over \$150,000, and 85% for loans of \$150,000 or less. The increased guarantee will provide a higher level of protection for risk-weary small business lenders who have tightened their lending standards considerably in the wake of the credit crunch.

Business Stabilization Program: The bill will also help banks provide relatively small, short-term loans to small business borrowers experiencing immediate financial hardship. Specifically, the new program will temporarily allow the SBA to fully guarantee “stabilization” loans that cannot exceed \$35,000, and fully subsidize a small business borrower’s interest payments on the stabilization loan. A borrower does not have to begin repaying the stabilization loan until 12 months after receiving it, and the loan must be paid in full within 5 years.

Microloans: The bill appropriates \$30 million for the SBA’s microloan program, with \$24 million dedicated to microloan technical assistance, and \$6 million for new microloans. The microloan program provides very small loans to qualifying micro-businesses (typically businesses with fewer than 10 employees) by making funds available to non-profit, community-based lenders – called intermediaries – which, in turn, make loans to eligible micro-borrowers in amounts up to \$35,000. Borrowers are also provided with corresponding technical assistance to ensure that the loan proceeds are used effectively.

Small Business Venture Capital Stimulus: The bill attempts to stimulate the flow of venture capital in the SBA's Small Business Investment Company (SBIC) program by simplifying the formula used to determine the maximum amount of SBA financing ("leverage") available to SBICs. Among other improvements to the SBIC program, the bill also makes "transition" leverage available to commonly-controlled SBICs, which will allow successful SBICs to operate a second or third fund, while maintaining the safeguards necessary to mitigate the SBA's risk in the investment.

Surety Bond Stimulus: As a result of the financial crisis, surety companies are now rejecting bond applications because the applicants (usually contractors in the construction industry) cannot show that adequate financing is in place to complete the project. The bill will temporarily increase the SBA's guarantee limit from \$2 million to \$5 million, and it appropriates an additional \$15 million for the SBA's surety bond revolving fund.

504 Program Improvements: With credit standards tightening, many credit-worthy small businesses have been denied new or additional loans for facility upgrades. The bill would allow a small business to refinance its existing loan through a 504 -- Community Development Corporation loan if at least 50% of the proceeds from the new 504 loan will be spent on qualifying expansion projects. In addition, the bill expands the universe of expansion projects that would qualify for a 504 loan. Current law requires the creation of one job for every \$65,000 loaned; the bill reduces that amount to \$50,000.

USDA Rural Development loan guarantee program: Funds are provided to provide an additional \$2.99 billion in loan guarantees of up to \$20 million each for businesses in rural areas and non urban cities of less than 50,000 people. The size of the guarantee varies with the size of the loan.

General Business Tax Provisions:

Extension of Bonus Depreciation: Businesses are allowed to recover the cost of capital expenditures over time according to a depreciation schedule. Last year, Congress temporarily allowed businesses to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting these businesses to immediately write-off fifty percent of the cost of depreciable property (e.g., equipment, tractors, wind turbines, solar panels, and computers) acquired in 2008 for use in the United States. The bill would extend this temporary benefit for capital expenditures incurred in 2009.

Extension of Enhanced Small Business Expensing: In order to help small businesses quickly recover the cost of certain capital expenses, small business taxpayers may elect to write-off the cost of these expenses in the year of acquisition in lieu of recovering these costs over time through depreciation. Until the end of 2010, small business taxpayers are allowed to write-off up to \$125,000 (indexed for inflation) of capital expenditures subject to a phase-out once capital expenditures exceed \$500,000 (indexed for inflation). Last year, Congress temporarily increased the amount that small businesses could write-off for capital expenditures incurred in 2008 to \$250,000 and increased the phase-out threshold for 2008 to \$800,000. The bill would extend these temporary increases for capital expenditures incurred in 2009.

5-Year Carryback of Net Operating Losses for Small Businesses: Under current law, net operating losses ("NOLs") may be carried back to the two taxable years before the year that the loss arises (the "NOL carryback period") and carried forward to each of the succeeding twenty taxable years after the year that the loss arises. For 2008, the bill would extend the maximum NOL carryback period from two years to five years for small businesses with gross receipts of \$15 million or less. This allows a qualifying small business to get a return of earlier taxes paid for those earlier years.

Delayed Recognition of Certain Cancellation of Debt Income: Under current law, a taxpayer generally has taxable income where the taxpayer cancels or repurchases its debt for an amount less than its adjusted issue price. Most businesses will be allowed pay the taxes over 10 years with no taxes for the first 4 or 5 years business debt repurchased by the business in 2009 or 2010 .

Small Business Capital Gains: Under current law provides a 50% exclusion for the gain from the sale of most small business stock held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of 10 times the taxpayer's basis in the stock, or \$10 million gain from stock in that small business corporation. This provision is limited to individual investments and not the investments of a corporation. The non-excluded portion of gain is taxed at the lesser of ordinary income rates or 28 percent, instead of the lower capital gains rates for individuals. The provision allows a 75% exclusion for individuals on the gain from the sale of certain small business stock held for more than five years. This change is for stock issued after the date of enactment and before January 1, 2011.

Temporary Small Business Estimated Tax Payment Relief: The bill reduces the 2009 required estimated tax payments for certain small businesses. In addition to the general business tax provisions listed above, there are numerous more specialized benefits particularly regarding energy. And, there are many significant tax reductions for individuals. For example, the new Making Work Pay" Tax Credit cuts taxes for more than 95% of working families in the United States. For 2009 and 2010, the bill provides a refundable tax credit of up to \$400 for working individuals and \$800 for working families. This tax credit would be calculated at a rate of 6.2% of earned income, and would phase out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 for married couples filing jointly). Taxpayers can receive this benefit through a reduction in the amount of income tax that is withheld from their paychecks, or through claiming the credit on their tax returns.

The American Recovery and Reinvestment Act will be carried out with full transparency and accountability. To track the progress: please go to www.recovery.gov.

RESOURCES FOR MORE INFORMATION ON SMALL BUSINESS PROGRAMS AND ASSISTANCE

Small Business Administration - Des Moines Office

210 Walnut St, Room 749

Des Moines, IA 50309

(515) 284-4422

www.sba.gov/localresources/district/ia/desmo/index.html - Iowa Website

www.sba.gov/recovery/index.html - Recovery Website

www.sba.gov/idc/groups/public/documents/sba_homepage/recovery_act_faqs.pdf-FAQ Section

USDA Rural Development – Des Moines Office

210 Walnut St

Des Moines, IA 50309

(515) 284-4663

www.rurdev.usda.gov/ia/

Internal Revenue Service – Des Moines Office

210 Walnut St

Des Moines, IA 50309

(515) 564-6618

www.irs.gov/businesses/index.html

Iowa Small Business Development Center

340 Gerdin Business Bldg.

Ames, IA 50011

(515) 294-2030

www.iowasbdc.org

Iowa Department of Economic Development

200 East Grand Avenue

Des Moines, IA 50309

(515) 242-4700

<http://www.iowalifechanging.com/Business/>

America Recovery and Reinvestment Act Website – FAQ Section

www.recovery.gov/

U.S. Senate Committee on Small Business & Entrepreneurship Website

<http://sbc.senate.gov/>

U.S. House Committee on Small Business Website

<http://www.house.gov/smbiz/>

