

## **Small Business and the American Recovery and Reinvestment Act**

### *How does the Recovery help small business?*

The American Recovery and Reinvestment Act provides \$730 million to the Small Business Administration (SBA) and makes changes to the agency's lending and investment programs so that they can reach more small businesses that need help. Below is a summary of some of the changes.

For more information, I encourage you to visit the following resources:

- Ways and Means summary: <http://waysandmeans.house.gov/media/pdf/111/arra.pdf>
- Small Business Administration's Financial Assistance information: <http://www.sba.gov/services/financialassistance/index.html>
- <http://www.sba.gov/recovery/>
- Small Business Administration Boston District Office  
617.565.5590  
<http://www.sba.gov/localresources/district/ma/index.html>

I also encourage you to consult with the Small Business Development Center (SBDC) in your community. The SBDC program is a cooperative effort of the private sector, the educational community, and federal, state, and local governments. The SBDC's provide free or low-cost business seminars to help you raise capital, start or grow your business in Massachusetts.

Massachusetts Small Business Development Center Northeast Regional Office  
[www.salemstate.edu/sbdc/](http://www.salemstate.edu/sbdc/)

Massachusetts Small Business Development Center Worcester Office  
<http://www.clarku.edu/Offices/sbdc/>

### **90 Percent Guarantee**

The bill allows SBA to raise its loan guarantee from the current levels to as much as 90 percent for some loans. At present, SBA can guarantee loans up to 85 percent on loans up to \$150,000, and up to 75 percent on loans greater than \$150,000. The 50 percent guarantee on SBA Express loans would remain unchanged. Increasing the SBA guarantee percentage will encourage lenders to extend more capital to small businesses by increasing the share covered by an SBA guarantee.

### **Business Stabilization Loans**

The bill creates a new SBA loan program to provide deferred-payment loans of up to \$35,000 to viable small businesses that need the money to make payments on an existing, qualifying loan for up to six months. These loans will be 100 percent guaranteed by SBA. Repayment would not have to begin until 12 months after the loan is fully disbursed. The bill provides \$255 million for this new program. These loans will help ensure that small businesses have time to re-focus their business plans in order to succeed in the long run.

### **Microloans**

The bill expands SBA's Microloan program, which provides small loans (up to \$35,000) paired with technical assistance to start-up, newly established or growing small businesses. The bill provides funding to increase loans from SBA to participating Microlenders by \$50 million through September 30, 2010, and adds \$24 million in grants to provide technical assistance to borrowers. Historically, these loans reach low-income individuals, women and minorities in both rural and urban areas. Expanding this program through the stimulus bill will help ensure these entrepreneurs are not left behind in the credit crunch.

### **Refinancing**

The bill also gives SBA the power to use the 504 Certified Development Company program to refinance existing loans for fixed assets, providing fresh support for small business expansion. This change will help business owners expand their current development projects and create jobs in their communities.

### **Secondary Market Expansion**

The bill authorizes SBA to establish a secondary market for pools of "first lien" loans under the 504 program. These "first lien" loans from commercial lenders currently have no SBA guarantee. The bill authorizes SBA to deploy federal guarantees for pools of these first lien loans, so that they can be sold to investors in a secondary market. Providing liquidity for these first mortgages will help encourage lenders to continue participating in SBA's 504 loan program, which provides a key source of capital for community development and other projects.

The bill also empowers SBA to set up a Secondary Market Lending Authority that would make direct loans to broker-dealers that participate in the secondary market for SBA-guaranteed 7(a) loans. These broker-dealers would use the funds to purchase SBA-backed loans from commercial lenders, assemble them into pools and sell them to investors in the secondary loan market. This program may help address some of the issues facing the secondary market for SBA loans and may ultimately help SBA lenders make new loans to borrowers.

### **Investment Program**

The bill helps SBA-licensed Small Business Investment Companies (SBICs) and families of SBIC funds better leverage the capital they use to invest in small businesses. The bill sets maximum levels of funding the agency can provide to these companies at up to three times the private capital raised by those companies, or \$150 million, whichever is less. It also raises the percentage any one SBIC can invest in a single small business to 10 percent of total capital, and raises from 20 percent to 25 percent the percentage of any licensee's dollar investments that must be made in "smaller" businesses.

### **Surety Bonds**

The bill also raises the maximum contract amount that can be covered by an SBA guaranteed surety bond from \$2 million to \$5 million, and, under certain circumstances, for contracts amounting to \$10 million, and provides additional funds to cover the costs of expanding this program. Small businesses need surety bonds in order to bid on and obtain many federal and other contracts. SBA guarantees surety bonds to small businesses that private surety companies would not otherwise be able to extend.

## 7(a) Loan Guarantee Program

*\$375 million nationwide*

<b>Agency:</b> Small Business Administration (SBA) <a href="http://www.sba.gov/services/financialassistance/sbaloantopics/7a/">http://www.sba.gov/services/financialassistance/sbaloantopics/7a/</a>
<b>Administrator:</b> Small Business Administration Boston District Office 617.565.5590 <a href="http://www.sba.gov/localresources/district/ma/index.html">http://www.sba.gov/localresources/district/ma/index.html</a>
<b>Eligibility:</b> All applicants must be eligible to be considered for a 7(a) loan. The eligibility requirements are designed to be as broad as possible in order that this lending program can accommodate the most diverse variety of small business financing needs. All businesses that are considered for financing under SBA's 7(a) loan program must: meet SBA size standards, be for-profit, not already have the internal resources (business or personal) to provide the financing, and be able to demonstrate repayment. Certain variations of SBA's 7(a) loan program may also require additional eligibility criteria. Special purpose programs will identify those additional criteria.  Eligibility factors for all 7(a) loans include: size, type of business, use of proceeds, and the availability of funds from other sources. The following links will provide more detailed information on these eligibility issues. <a href="http://www.sba.gov/services/financialassistance/sbaloantopics/7a/">http://www.sba.gov/services/financialassistance/sbaloantopics/7a/</a>
<b>Description:</b> Temporary fee elimination - SBA is directed to collect no fee or reduce fees to the maximum extent possible for the 7(a) loan program. SBA may guarantee up to 90% of 7(a) loans. These funds are to ensure small businesses maintain have access to 7(a) loans that may be used to establish a new business or to assist in the operation, acquisition or expansion of an existing business.

## 504 Loan Program

*\$375 million nationwide*

<b>Agency:</b> Small Business Administration (SBA) <a href="http://www.sba.gov/services/financialassistance/sbaloantopics/cdc504/index.html">http://www.sba.gov/services/financialassistance/sbaloantopics/cdc504/index.html</a>
<b>Administrator:</b> Small Business Administration Boston District Office 617.565.5590 <a href="http://www.sba.gov/localresources/district/ma/index.html">http://www.sba.gov/localresources/district/ma/index.html</a>
<b>Eligibility:</b> To be eligible, the business must be operated for profit and fall within the size standards set by the SBA. Under the 504 Program, the business qualifies as small if it does not have a tangible net worth in excess of \$7.5 million and does not have an average net income in excess of \$2.5 million after taxes for the preceding two years.

Loans cannot be made to businesses engaged in speculation or investment in rental real estate.

**Description:** Funds to ensure small businesses maintain adequate access to 504 loans. 504 loans may be used for purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots and landscaping; construction of new facilities, or modernizing, renovating or converting existing facilities; or purchasing long-term machinery and equipment.

### **Business Stabilization Program**

*\$225 million nationwide*

**Agency:**

Small Business Administration (SBA)  
[www.sba.gov](http://www.sba.gov)

**Administrator:**

Small Business Administration Boston District Office  
617.565.5590

<http://www.sba.gov/localresources/district/ma/index.html>

**Eligibility:** To date, no further details have been released about this program. Funding opportunities are listed on this website: <http://www.sba.gov/recovery/>

**Description:** To provide loans on a deferred basis to viable small business concerns with a qualifying small business loan and are experiencing immediate financial hardship.

### **Micro-Loan Program**

*\$6 million nationwide*

**Agency:**

Small Business Administration (SBA)  
<http://www.sba.gov/services/financialassistance/sbaloantopics/microloans/index.html>

**Administrator:**

Small Business Administration Boston District Office  
617.565.5590

<http://www.sba.gov/localresources/district/ma/index.html>

**Eligibility:** Small businesses that are interested in applying for a microloan should contact a microlender in their area.

Western Massachusetts Enterprise Fund (Microlender)  
413-774-4033  
[www.wmef.org](http://www.wmef.org)

**Description:** Provides very small loans to start-up, newly established, or growing small business concerns. Under this program, SBA makes funds available to nonprofit community based lenders (intermediaries) which, in turn, make loans to eligible borrowers in amounts up to a maximum of \$35,000. The average loan size is

about \$13,000. Applications are submitted to the local intermediary and all credit decisions are made on the local level.

### ***SMALL BUSINESS TAX CREDIT PROGRAMS***

The following tax information can be found on the Committee on Ways and Means website at:  
**<http://waysandmeans.house.gov/media/pdf/111/arra.pdf>**

Internal Revenue Service (IRS)

**<http://www.irs.gov/newsroom/article/0,,id=204335,00.html?portlet=6>**

800.829.4933

Additional Help with Tax information:

National Taxpayer Advocate

**<http://www.irs.gov/advocate/article/0,,id=97402,00.html>**

877.777.4778

**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. *This proposal is estimated to cost \$5.074 billion over 10 years.*

**Election to Accelerate Recognition of Historic AMT/R&D Credits.** Last year, Congress temporarily allowed businesses to accelerate the recognition of a portion of their historic AMT or research and development (R&D) credits in lieu of bonus depreciation. The amount that taxpayers may accelerate is calculated based on the amount that each taxpayer invests in property that would otherwise qualify for bonus depreciation. This amount is capped at the lesser of six percent (6%) of historic AMT and R&D credits or \$30 million. The bill would extend this temporary benefit through 2009. *This proposal is estimated to cost \$805 million over 10 years.*

**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. *This proposal is estimated to cost \$41 million over 10 years.*

**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 proposal is estimated to cost \$947 million over 10 years.*

**Delayed Recognition of Certain Cancellation of Debt Income.** Under current law, a taxpayer generally has income where the taxpayer cancels or repurchases its debt for an amount less than its adjusted issue price. The amount of cancellation of debt income (“CODI”) is the excess of the old debt’s adjusted issue price over the repurchase price. Certain businesses will be allowed to recognize CODI over 10 years (defer tax on CODI for the first four or five years and recognize this income ratably over the following five taxable years) for specified types of business debt repurchased by the business after December 31, 2008 and before January 1, 2011.

*This proposal is estimated to cost \$1.622 billion over 10 years.*

**Incentives to Hire Unemployed Veterans and Disconnected Youth.** Under current law, businesses are allowed to claim a work opportunity tax credit equal to 40 percent of the first \$6,000 of wages paid to employees of one of nine targeted groups. The bill would create two new targeted groups of prospective employees: (1) unemployed veterans; and (2) disconnected youth. An individual would qualify as an unemployed veteran if they were discharged or released from active duty from the Armed Forces during the five-year period prior to hiring and received unemployment compensation for more than four weeks during the year before being hired. An individual qualifies as a disconnected youth if they are between the ages of 16 and 25 and have not been regularly employed or attended school in the past 6 months. *This proposal is estimated to cost \$231 million over 10 years.*

**Small Business Capital Gains.** Under current law, Section 1202 provides a fifty percent (50%) exclusion for the gain from the sale of certain 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 nonexcluded portion of section 1202 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 seventy-five percent (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. *This provision is estimated to cost \$829 million over 10 years.*

**Temporary Small Business Estimated Tax Payment Relief.** The bill reduces the 2009 required estimated tax payments for certain small businesses. *This provision has been estimated to have no revenue effect over 10 years.*

**Temporary Reduction of S Corporation Built-In Gains Holding Period from 10 Years to 7 Years.** Under current law, if a taxable corporation converts into an S corporation, the conversion is not a taxable event. However, following such a conversion, an S corporation must hold its assets for ten years in order to avoid a tax on any built-in gains that existed at the time of the conversion. The bill would temporarily reduce this holding period from ten years to seven years for sales occurring in 2009 and 2010. *This proposal is estimated to cost \$415 million over 10 years.*

**Repeal of Treasury Section 382 Notice.** Last year, the Treasury Department issued Notice 2008-83, which liberalized rules in the tax code that are intended to prevent taxpayers that acquire companies from claiming losses that were incurred by the acquired company prior to the taxpayer's ownership of the company. The bill would repeal this Notice prospectively. *This proposal is estimated to raise \$6.977 billion over 10 years.*

**Treatment of Certain Ownership Changes.** The bill would clarify the application of section 382 to certain companies restructuring pursuant to the Emergency Economic Stabilization Act of 2008. *This proposal is estimated to cost \$3.163 billion over 10 years.*

## Work Opportunity Tax Credit (WOTC)

**Agency:**

U.S. Department of Labor, Employment and Training Administration (ETA)

<http://www.doleta.gov/>

877.US.2JOBS

[www.irs.gov](http://www.irs.gov)

800.829.4933

WOTC is described at <http://www.doleta.gov/business/incentives/opptax/>

**Description:** A new targeted group is created for WOTC, which provides a tax credit to employers who hire members of targeted groups. The new group is unemployed

veterans and disconnected youth who begin work in 2009 and 2010. The credit applies to individuals who begin work for the employer after December 31, 2008.