



President Obama's Plan to Help Small Business

Recently there has been a lot of buzz about President Obama's plan to help small business. You may be asking yourself what it all means to you as a small business owner. As your trusted business adviser we would like to help you understand, recognize and seize the opportunities available as a result of these new initiatives. Below are key aspects of the plan that you should be aware of and that may optimally impact your business.

In an effort to free up credit available to small business owners and get banks back into the lending business, the Treasury Department will pump up to \$15 billion into the secondary markets for small business loans. This will be achieved by the Treasury Department purchasing the government guaranteed SBA loans and securities under the SBA 7(a) (a program to issue loans to support operations) and 504 loan programs (a program providing financing for major fixed assets such as land and buildings) in the secondary markets.

- This is expected to restore liquidity to lenders thus providing them with new capital they can use to extend additional loans to small businesses.
- Theoretically, banks will be more willing to lend funds knowing there will be a ready buyer of the loans in the secondary market.

As a key feature of the Recovery Act, the SBA will temporarily raise guarantees to up to 90% on SBA 7(a) loans (increased from 75%-85% guarantee under the old rules).

- The 90% guarantee is for loans up to \$1.6 million. Loans above the \$1.6 million up to the loan maximum of \$2 million will fall under the 75%-85% old rule guarantees. The SBA will only guarantee up to \$1.5 million.
- This, in essence, reduces the risk lenders face when they make loans and is expected to give banks more comfort in lending to small businesses owners as it provides greater safeguards against possible credit losses.

In addition, the SBA announced that they will temporarily eliminate fees for borrowers on certain 7(a) loans and 504 loans.

- Typically, fees for a 7(a) loan are based on the guaranteed portions of the loan and total amount of the loan and range from 2% to 3.75%.
- For example, a 7(a) loan for \$500,000 under the new 90% guarantee rules with a 3% fee would normally cost a borrower \$13,500 ($\$500,000 \times 90\% \times 3\%$).
- Elimination of this fee means substantially lower costs for small businesses to obtain capital.

All of the above changes to the SBA loan programs and the Treasury Department's willingness to buy up SBA loans in the secondary market provide new opportunity to small businesses to borrow the much needed capital to help their business through these tough times. If you recently were rejected for a loan, or are having difficulty renewing your current loan portfolio to due covenant violations, now may be the time to consider an SBA loan through your local bank.

In addition to actions taken by the SBA and Treasury Department to expand access to capital, the **American Recovery and Reinvestment Act of 2009**, effective February 17, 2009, provides tax breaks and incentives for small businesses and is aimed at increasing spending and employment.

Longer Net Operating Loss (NOL) Carryback – This provision permits small businesses with average gross receipts of \$15 million or less over the last three years to carryback a 2008 NOL for as many as five years (instead of two).

- This will have a significant impact on small businesses by allowing them to retrieve taxes previously paid and use that to help current cash flow demands.
- If your company experienced a loss in 2008, this provision may work for your business. If you paid taxes on profits in the past five years, you may be eligible to carryback the NOL and apply the loss to prior year taxes. This could potentially mean a refund of taxes you paid in the past, supplying quick cash to your business.

Extension of 50% Bonus Depreciation - Businesses are allowed to recover the cost of eligible capital property over time through depreciation. The Recovery Act allows an immediate write off of 50% of the cost of eligible property acquired before January 1, 2010.

- This allows for a higher tax deduction in the first year on purchases of new property providing a tax incentive for you to invest in capital property for your business.

Extension of Higher Section 179 Expensing Limits - Small businesses can quickly recover the costs of capital expenditures by electing a write off in the year of acquisition under code sec. 179 instead of over time through depreciation. Now through 2009, small businesses are allowed to write-off up to \$250,000. This limit is phased out once the capital expenditures incurred exceed \$800,000.

- This is expected to provide small businesses the incentive to invest thus creating more jobs.
- If appropriate for your tax situation, combining this provision with the 50% bonus depreciation provision maximizes your tax savings, keeping more cash in your business.
- Now is the time for investment and expansion in your business especially with the opportunities to obtain capital from the SBA as previously discussed.

Small Business Estimated Taxes Relief - The Recovery Act reduces the 2009 required estimated tax for small businesses from 110% to 90% of the previous year's liability.

- This will likely help decrease the cash burden on small businesses and help boost liquidity.

Increased Exclusion of Gain on Small Business Stock - The Recovery Act increases the amount of gain excluded from an individual's income from the sale or exchange of small business stock from 50% to 75%. The increased exclusion applies to new original issue stock acquired after February 17, 2009 and before December 31, 2010 and held for at least five years.

- This provision is aimed at providing an incentive for investors to invest money in small businesses.

While this plan may not be a cure-all for all small businesses, between the expansion of credit availability and the Recovery Act tax breaks and incentives, your small business should be positively impacted in some way or another. We encourage you to contact us to discuss in more detail how these measures can be applied to your current situation.