

Summary of the Small Business Jobs Act

Expands Small Businesses Access to Capital

- Creates a \$30 billion Small Business Lending Fund to provide community banks with capital to increase small business lending. The fund is limited to the smallest banks, those holding \$10 billion or less in assets, with key performance-based standards to incentivize those lenders that extend new credit to small businesses (decreasing the dividend rate banks pay as they increase small business lending).
- Invests \$1.5 billion in grants to support \$15 billion in new small business lending through already successful state programs.
- Expands access to and lowers costs for small business to access SBA loans and increases Small Business Administration (SBA) loan limits:
 - Continues the small business lending program that eliminates fees charged for SBA loans [7(a) and 504 loans] and increases the government guarantees on 7(a) loans from 75 percent to 90 percent through the end of the year. Since its creation, this has supported over \$26 billion in small business lending, which has helped to create or retain over 650,000 jobs.
 - Raises the cap on small business loans to increase lending by \$5 billion in the first year, increasing the 7(a) and 504 loan limits from \$2 million to \$5 million, 504 loan limits for manufacturing firms are increased to \$5.5 million, Microloan limits are increased from \$35,000 to \$50,000 and SBA Express working capital loans are increased from \$250,000 to \$1 million.
- Spurs investors by giving 100% exclusion from capital gains taxes on small business investments.
- Reduces small business taxes by allowing them to carry back general business tax credits to offset their taxes from the previous five years. Small businesses will also be able to count the general business credits against the Alternative Minimum Tax (AMT), freeing up capital for expansion and job growth.

Spur Small Businesses Investments & Growth

- Doubles small business expensing (to \$500,000, phasing out at \$2 million) -- for immediate write offs of capital investments, such as equipment and machinery, in 2010 and 2011. Also expands purchases qualifying for expensing to include certain types of real property, such as leasehold, retail and restaurant improvements.
- Extends Bonus Depreciation – allowing businesses to immediately write off 50 percent of the cost of new equipment investments in 2010.
- Spurs investment and growth -- the bill helps give small businesses more cash on hand to create jobs.

Promote Entrepreneurship and Small Business Exports

- Doubles to \$10,000 the tax deduction for start-up expenditures for entrepreneurs looking to launch a new venture.
- Creates a variety of new tools to help small businesses gain international market access and export goods (at USTR, SBA, and Commerce), including a new State Export Promotion Grant Program (STEP), which will leverage more than \$1 billion in exports.

Promote Fairness in Competition

- Improves tax fairness by preventing small businesses from incurring large tax penalties aimed at large corporations and wealthy individuals investing in tax shelters. (Section 6707A)

- Removes onerous requirements that complicate the ability to deduct costs of cell phone use as a regular business expense
- Allows self-employed individuals to deduct health insurance costs in paying the self-employment tax in 2010.
- Removes the red tape and closes loopholes that too often put government contracts into the hands of multinational corporations, instead of Main Street businesses – such as periodic reviews of small business size standards in government contracts and requiring prompt payments to small business subcontractors from large businesses with government contracts.
- Ensures that no business contracting program – HUBZone, 8(a), and Service-Disabled Veterans and Women Owned Businesses – takes priority over another in competing for federal contracts.

Fully Paid for/Closing Tax Loopholes & Tax Gap

- Takes another in series of steps to **close tax loopholes that promote corporations shipping jobs overseas** - - dealing with the source rules on guarantee fees for indebtedness.
- Closes a loophole that allows paper mills to claim biofuel tax credit for a byproduct known as "crude tall oil"-- a waste by-product of paper manufacturing. The bill would limit the tax credit to fuels that are not highly corrosive (i.e., fuels that could be used in a car engine or in a home heating application).
- Allows 401(k), 403(b), and governmental 457(b) plans to permit participants to roll their pre-tax account balances into a Roth account. Contributions to Roth accounts are taxed when made, but distributions of both principal and earnings are tax-free upon withdrawal.
- Reduces the tax gap by requiring information reporting for rental property expense payments, increasing penalties for failure to file information returns, and tightening the process for going after federal contractors who have not paid their federal taxes.

Q. Is the Small Business Lending fund TARP for small banks?

A. No. The lending fund is separate from and unlike TARP:

- ✓ It is limited to smaller banks -- banks with assets of less than \$10 billion -- ruling out the big banks that have drawn fire for putting their own interests before their customers.
- ✓ It is fully paid for and will save taxpayers \$1 billion as banks are expected to repay funds over 10 years.
- ✓ It includes tough performance-based incentives would ensure that banks lend to small businesses.
 - The smallest banks with assets of less than \$1 billion would be able to borrow an amount equal 5% of their assets, and smaller banks worth up to \$10 billion would be eligible for an investment of up to 3% of their assets.
 - Banks would repay the government's investment at a dividend rate starting at 5% with lower interest payments if they expand their small business lending. That rate would drop by 1% for every 2.5% increase in small business lending that the bank shows compared to 2009. A lender could cut its dividend rate to just 1% by increasing small business loan portfolio by 10%.
 - But if the bank reduced its small business lending, its repayment dividend would shoot up as high as 7%.
- ✓ Bank have one year to apply for capital investments from Treasury, and have strong incentives to pay back the money in less than 5 years.

As Republican Senator George Voinovich said, "I reached the conclusion that this \$30 billion small business lending fund will help banks that serve local communities to expand their lending at a time when credit to small businesses has tightened for a variety of reasons. These are the community banks that make the small but necessary loans to restaurants, small manufacturers, home improvement contractors, and the like to keep their businesses afloat and hopefully begin to expand as the economy recovers. In addition, the program is voluntary for these banks, and the lending fund is estimated by the Congressional Budget Office to save

money. In other words, the lending fund will not add to the budget deficit or the national debt, and it will not increase taxes." [9/16/10]