



BARACK OBAMA AND JOE BIDEN: Small Business Emergency Rescue Plan

The financial crisis is threatening the viability of America's small business. In recent months, two-thirds of U.S. banks have tightened their lending standards for loans to small businesses.¹ Thousands of small firms are unable to access the credit they need to pay their workers, produce their products, or finance their inventories for the upcoming holidays – the most important sales season. They are facing the prospect of having to lay off workers, cut back operations or close their doors altogether, even if they have healthy balance sheets and operations.

Barack Obama supported the recent financial market rescue legislation to prevent a financial and economic catastrophe. However, Barack Obama understands that passing this rescue plan was not the end of our work to strengthen our economy – it was only the beginning. While the financial market rescue plan is designed to unfreeze credit which will indirectly benefit small businesses, Obama recognizes that small businesses need direct and immediate access to capital now. Today he called for a Small Business Rescue Plan to help small firms get the loans they need to conduct day-to-day operating expenses, undertake short-term investments, and meet payrolls. The plan will use the tools we have available through the Small Business Administration to aggressively extend credit to struggling firms, while providing tax cuts for small businesses to encourage job creation. With small businesses responsible for more than two-thirds of new job creation, this plan is vital to stemming job losses and turning our economy around. Obama's small business plan includes:

- **A Nationwide Emergency Lending Facility for Small Businesses:** Just as we did in the wake of 9/11, when businesses all around the country were facing economic injury, Barack Obama is calling for the Small Business Administration to directly lend to small businesses that cannot access other sources of capital. The facility will be run through the Small Business Administration's (SBA) Disaster Loan Program, which is designed to offer affordable, fixed-rate loans to small firms to meet operating expenses, undertake needed short-term investments, or to refinance debt. Loans should be available on an expedited basis, so that firms can access the credit needed to meet their operating expenses immediately.
- **Expanding Small Business Administration Guarantees to Encourage Private Lending to Small Businesses:** Obama is calling for expanding the SBA's key loan guarantee programs – 7(a) and 504 – by temporarily eliminating fees for borrowers and lenders and increasing the guarantee rate on private loans. These steps will give lenders new incentives to lend and help unlock credit for small firms. It will send a clear signal that the government is standing with small businesses and ensuring sources of loans.
- **Temporary tax incentives to encourage small businesses to invest in jobs.** Obama will give small businesses additional incentive to make investments and start creating jobs again by providing temporary business tax incentives through 2009. The February 2008 stimulus bill increased maximum section 179 expenses to \$250,000 but this expires in December 2008. This provision will encourage all firms to pursue investment in the coming months, but will benefit small firms in particular, who generally have smaller amounts of annual property purchases and so choose to expense the cost of their acquired property.

¹ Fed's Senior Loan Officer Survey, Sep 29

- **Zero capital gains rate for investment in small businesses.** Barack Obama believes that we need to encourage investment in small businesses to help create jobs and turn our economy around. That's why Obama will eliminate all capital gains taxes on investments made in small and start-up businesses. Unlike John McCain, who wants to give \$200 billion in new tax cuts to America's largest and most profitable businesses, Barack Obama wants to cut taxes for the small businesses that create jobs but struggling with restricted access to credit alongside skyrocketing health care and energy costs.

These steps to increase credit for small businesses and help encourage them to create jobs build on Barack Obama's comprehensive plan for small businesses.

Cut Taxes for the Vast Majority of Small Businesses: Barack Obama believes that we need to reduce burdens on small business owners, many of whom are struggling to succeed in the midst of our economic crisis. Unlike John McCain, Obama has proposed direct tax cuts for small businesses, including zero capital gains for investments in small businesses and a new 50% tax credit for businesses that offer health care to their employees (see below). Obama will provide a \$1000 Making Work Pay tax credit to 95 percent of workers and their families, which will help individuals with small business income, including the country's more than 20 million self-employed individuals. And because the Obama plan preserves existing tax rates for families making less than \$250,000 a year, nearly 99 % of small business owners won't see any tax increase under the Obama plan.²

Lower Health Care Costs and Ease the Health Care Burden for Small Businesses: Barack Obama understands that the skyrocketing cost of health care poses a serious competitive threat to all American businesses. But small business owners face unique and greater challenges in providing health care to their employees, including higher administrative costs, lower bargaining power, greater price volatility and fewer pooling options.

- **Create New Small Business Health Tax Credit:** Barack Obama will exempt small businesses from any requirement to offer health insurance to their employees or contribute on their behalf. Instead, he will give small businesses new incentives to provide health care with a Small Business Health Tax Credit. The Obama Small Business Health Tax Credit will provide a refundable credit of up to 50 percent on premiums paid by small businesses on behalf of their employees and to small businesses with no employees.
- **Reduce Volatility and Lower Costs by Reimbursing Catastrophic Costs:** The Obama plan will reimburse employer health plans for a portion of the catastrophic costs they incur above a threshold if such savings are used to reduce the cost of workers' premiums. This reimbursement (often called reinsurance) is particularly important for small business plans, which can be overwhelmed by the costs of catastrophic expenditures for even a single employee.
- **Investment in Cost Reduction and Quality Improvement Strategies:** The Obama plan will aggressively work to lower health care costs for small businesses by facilitating broad adoption of standards-based electronic health information systems and other value-increasing innovations improving chronic care management, promoting healthy employees, and increasing insurance market competition.

Strengthen Small Business Programs Targeting Women, Service-Disabled Veterans, and Minorities: Barack Obama will strengthen programs that provide access to capital and contracting opportunities to

² According to the Tax Policy Center, only 1.4% of individual filers reporting small business income had income high enough to fall in the top two statutory tax rates.

minority- and women-owned businesses, support outreach programs that help minority, service-disabled veteran, and women-owned business owners apply for and are awarded loans, and work to encourage the growth and capacity of minority and women-owned firms. He will also implement a Women-Owned Business contracting program to create greater opportunities for women business owners who would like to do business with the federal government – a program that was signed into law by President Bill Clinton, but has yet to be implemented by the Bush Administration.

Increase Access to Capital: Small businesses everywhere are suffering the effects of the current credit crunch. As a result, many creditworthy businesses are unable to secure loans and grow their businesses. Obama will work to help more entrepreneurs secure both traditional and alternative means of financing, expand the network of lenders, make interest rates for SBA loans more competitive with the private sector, and simplify the loan approval process. The Obama administration will also work to ensure that federal small business contracts are not diverted to large businesses, to eliminate fraud, ensure accurate and reliable data, end contract bundling, and ensure appropriate treatment of subcontractors.

Reinvigorate the Small Business Administration: The SBA can and should be an effective tool for the vitality and growth of our small businesses and, more broadly, our economy. The Bush administration has decimated the budget of the SBA, and Republican administrations have been trying to dismantle it since the 1980s. Since 2001, the SBA's budget has been cut more deeply than any other federal agency. Barack Obama pledges to restore the SBA's budget, strengthen its institutional capacity, and ensure that the small business community plays a vital role in government policymaking.

Create a National Network of Public-Private Business Incubators: Barack Obama will support entrepreneurship and spur job growth by creating a national network of public-private business incubators. Business incubators facilitate the critical work of entrepreneurs in creating start-up companies. They offer help designing business plans, provide physical space, identify and address problems affecting all small businesses within a given community, and give advice on a wide range of business practices, including reducing overhead costs. Business incubators will engage the expertise and resources of local institutions of higher education and successful private sector businesses to help ensure that small businesses have both a strong plan and the resources for long-term success. Obama will invest \$250 million per year to increase the number and size of incubators in disadvantaged communities throughout the country.

Promote Small Business Ownership in the Communications Industry: Barack Obama joined Senator John Kerry (D-MA) in calling on the Federal Communications Commission (FCC) to immediately address the issues of minority, women and small business media ownership before taking up a second review of wider media ownership rules. Obama has continued that fight by urging the FCC to establish an independent panel on minority and small business media ownership. As president, Obama will support efforts to achieve diverse media ownership, particularly in an era of increased media concentration.