



From the Desk of Dean Zerbe.



Washington Stiffs Small Business

by Dean Zerbe

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The Senate's just-passed \$838 billion economic stimulus bill is just as bad for small business as is the House-passed version. Despite the gallons of rhetorical ink used for speeches about the need to help small businesses, the reality is a thimble of real support.

The Senate Finance Committee's Republican staff (full disclosure: my old shop) has done an analysis of the Joint Committee on Taxation's revenue estimate for the compromise Senate bill. The staff's conclusion: Less than \$6 billion of tax relief is directed to small business. Even that estimate may be generous.

So at the end of the day less than a penny of each dollar of the stimulus will go to help small businesses, which create 75% of the new jobs in this economy. Meanwhile, small business is still waiting to see any real benefit from the \$700 billion that's been dedicated to the U.S. Treasury under the Troubled Asset Relief Program. Today, availability of credit remains the top problem for small business.

What gets more money in the Senate stimulus bill than the \$6 billion for small business? There's \$7 billion for Federal Buildings Fund and \$6.4 billion for State and Tribal Assistance Environmental Protection Agency Grants. That's just a start of a very long list of interests that get more benefit from the stimulus bill than small business.

There are some obvious ways a stimulus bill could help small business. Why not a payroll tax holiday for small-business owners? Why not allow business credits in the individual alternative minimum tax, so that small-business owners who operate as partnerships or S corps can benefit from the same tax incentives as the Fortune 500? Why not zero out capital gains taxes for new investments in small business that President Obama proposed during the campaign? None of these ideas is now in the bill.

Unfortunately, while Congress and the Obama administration have ignored small business, one Washington institution is continuing to focus on the sector: the Internal Revenue Service. In a down economy, the IRS continues to focus on small and medium business, increasing the audit rates of small business, even while reducing audits on big businesses. (This is happening even though audits of small and medium business return far less per dollar to the Treasury than audits of large corporations or wealthy individuals.)

I appreciate the new president's comments about the need to recognize that folks are human, as he sought to frame the tax problems of his nominees to Treasury, Health and Human Services and other positions. Unfortunately, that same tolerant view is utterly lost at the IRS, when it comes to small business.

An example of the anti-small business mind-set: The IRS just announced that it is directing its auditors to impose a 20% penalty for small and medium businesses seeking a refund for Research and Development Credits. Even if the auditor finds that the claimed credit was 95% correct, there will still be a 20% penalty on the 5% disallowed.

Brilliant. At a time when this country desperately needs innovation and improved productivity, the IRS is effectively seeking to shut down the tax incentives for small and medium business to conduct research and development. We are not going to get out of our economic downturn until Washington ends the big squeeze on small business.

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