

# **American Small Businesses: Driving Innovation and Creating Jobs**

*Wealth is created by Americans – by creativity and enterprise and risk-taking. But government can create an environment where businesses and entrepreneurs and families can dream and flourish.*

-- President George W. Bush

## **Presidential Action**

Today, the President will unveil his plan to help create an environment in which small businesses can flourish. His plan will free entrepreneurs to devote more time and resources to servicing their customers, developing their products, and helping their employees.

## **President's Agenda**

Small businesses are the backbone of the American economy. The President's agenda gives small business owners the jump-start they need to create new jobs, support their workers, and improve our economy. His agenda will:

- Provide new tax incentives to make it easier for small businesses to make important job-creating investments;
- Give small business owners more power to provide health care for their uninsured employees, and improves the health care options for employees who already have insurance;
- Tear down the regulatory barriers to job creation for small businesses and give small business owners a voice in the complex and confusing federal regulatory process;
- Save taxpayers dollars by ensuring full and open competition to government contracts; and
- Provide small businesses with the information they need to succeed.

### **The President's Small Business Agenda**

Every new business starts with an idea for a better product or process. These ideas become reality only when confident entrepreneurs are willing to take economic risks. Small businesses are the heart of the American economy because they drive innovation – new firms are established on the premise that they can do a better job. For innovative small businesses, adequate performance is never good enough and excellence is an endless pursuit. These dynamic companies also drive the job creation process. In fact, small and young companies create two thirds of the net new jobs in our economy, and they employ half of all private-sector workers. Entrepreneurship has become the path to prosperity for many Americans, including minorities and women.

The role of government is not to create wealth, but to create an environment in which entrepreneurs can flourish. The President believes that low taxes and clear, sensible regulations are essential to helping all 25 million small businesses in America. Equally important, the President believes we must work to ensure that employees of small businesses have access to high-quality health care and reliable pensions. And for those small businesses that deal with the federal government, the contracting process should be fair, open, and straightforward.

### **New Tax Incentives for Job-Creating Investments**

High tax rates inhibit entrepreneurial activity because they act as a tax on success, claiming a larger share of income from flourishing enterprises, while the government shares little of the risk of loss. For most entrepreneurs, taxes reduce their companies' cash flow – the money businesses need to expand, buy more equipment, and hire more workers. To ensure continued innovation, President Bush believes that the government should leave as many resources as possible with the entrepreneurs and companies that are generating new ideas, better jobs, and greater wealth.

The President congratulates the Congress for already taking bipartisan action to help small businesses. The 2001 Economic Growth and Tax Relief Reconciliation Act and the 2002 Job Creation and Worker Assistance Act were historic steps that reduced the tax burden on small businesses and increased the prospects for economic recovery. The President believes that the following proposals would build on this strong record:

- Increase small business expensing. This proposal would allow more small businesses to immediately expense more new investment. Under current law, firms with up to \$200,000 in new investments can immediately expense (rather than depreciate) the first \$25,000. Under this proposal, firms with up to \$325,000 in new investments could immediately expense the first \$40,000. This proposal will save small businesses \$7 billion over 10 years.
- Simplify taxes for small businesses. The Treasury Department will shortly announce final rules to allow service-oriented businesses with less than \$10 million in gross receipts to use cash accounting rather than accrual accounting. This change will significantly reduce the paperwork burden for hundreds of thousands of small businesses. The simplification will also allow these businesses to immediately deduct the cost of supplies and to defer paying taxes until income is actually received. In addition, the President has directed the Treasury Department to finalize the proposed rules on the capitalization of intangible assets as quickly as possible. The lack of clarity in this area has consumed too much time and produced too much uncertainty for small firms. This change will allow small businesses to focus their resources on their customers and not the IRS. Finally, the President has instructed the Treasury Department to conduct a study on additional ways to simplify taxes on small businesses.
- Permanently repeal the death tax. The death tax can fall most heavily on small businesses that are asset rich but cash poor. This proposal would permanently repeal the death tax, allowing family-owned businesses to be passed from one generation to the next without having to sell assets to pay a punitive tax. The President believes that the bias of the death tax against the family-owned small business is the antithesis of the American Dream. This proposal will save \$104 billion over 10 years.

### **More Power to Provide Health Care for Uninsured Employees, and Better Health Care Options for Employees Who Have Insurance**

Small businesses frequently have trouble providing health care and pensions to their employees. The President applauds the Congress for already taking significant action to improve the retirement security for workers at small businesses. For example, the 2001 tax law provided a tax credit to help small businesses pay for the first three years of administrative expenses of a new pension plan. The President believes that we must work equally hard to increase health security for the employees of small businesses. Specifically, he proposes the following steps:

- Permit associations to provide health insurance. Under this proposal, industry associations such as the National Federation of Independent Businesses could effectively pool together their members to offer health insurance policies, called Association Health Plans, giving small businesses the same kind of purchasing

power and coverage options that large firms can provide for their employees. By establishing nationwide standards for association health plans, small businesses will have access to lower cost plans, greater administrative efficiencies, and much greater flexibility in the design and choice of benefits.

- Dramatically improve Medical Savings Accounts. Medical Savings Accounts (Archer MSAs) combine a tax-free saving account with a high-deductible health insurance plan, providing a lower-cost health care option that is ideal for small businesses. Unfortunately, the excessive restrictions on MSAs have prevented small businesses from taking full advantage of their potential. This proposal would eliminate the current cap on the number of MSAs allowed nationwide and would lower the required deductible from \$1,650 to \$1,000 for an individual plan and from \$3,300 to \$2,000 for a family plan. This proposal would also allow MSAs to include first-dollar coverage for preventive care and would allow MSAs to be used with insurance plans commonly available in the market today. These changes will make MSAs significantly more attractive to both employers and employees. This proposal will save \$6 billion over 10 years.

### **Tear Down Regulatory Barriers to Job Creation and Give Small Business Owners a Voice in the Complex and Confusing Federal Regulatory Process**

The complex, confusing, and cumbersome maze of federal regulations costs small businesses 60 percent more per employee than it costs large businesses. Entrepreneurs cannot operate effectively in an environment of uncertainty and confusion. Such an environment makes entrepreneurs spend more time with their lawyers and accountants and less time with their customers. And compliance with these regulations can be very costly – averaging \$7,000 per employee by one estimate. The President believes that the following proposals would improve the regulatory environment for entrepreneurs:

- Strengthen the SBA Office of Advocacy. The Small Business Administration Office of Advocacy should ensure that the interests of small businesses are fully considered when agencies begin crafting new regulations. Agencies should thoroughly review the potential impact of regulations on small businesses well before they submit new regulations to the Office of Management and Budget. To better ensure this outcome, the President will provide the Office of Advocacy with greater enforcement powers through an Executive Order. Under this order, the Office of Advocacy will have the power to compel agencies, if they fail to study the impact of a new regulation on small businesses, to explain in writing why they did not undertake a study. The Office of Advocacy would make these explanations public (consistent with applicable laws) and work with the OMB Office of Information and Regulatory Affairs (OIRA) to ensure that regulations are well prepared before they are submitted to OMB.
- Increase coordination between OIRA and the SBA Office of Advocacy. Today, the Office of Advocacy and OIRA are signing a memorandum of understanding that is designed to ensure that these two offices work closely together to ensure that agencies consider small business issues as early as possible in the regulation writing process.
- Seek comments from small businesses on ways to improve regulations. The President has instructed the Director of the OMB to seek the views and comments of small businesses on existing federal government regulations, paperwork requirements, and guidance documents. Today, the OMB OIRA is announcing a 60-day public comment period under the Regulatory Right to Know Act. OIRA is also releasing the 2002 draft Report to Congress on the Costs and Benefits of Federal Regulations. This report focuses special attention on the needs and concerns of small businesses.
- Strengthen enforcement the Regulatory Flexibility Act. The President has also instructed the Director of the OMB to work with the SBA Office of Advocacy to

strengthen the enforcement the Regulatory Flexibility Act. This Act requires agencies to prepare an analysis of the impact of new regulations on small businesses before they are put in place. OMB will send back to agencies any proposed rules that have not taken the impact on small businesses into serious consideration, as required.

- Allow small businesses to earn interest on their checking accounts. Due to outdated, depression-era laws, small businesses are not allowed to earn interest on their checking accounts. For many small businesses, the interest income on their checking account balances would defray other significant costs. The President believes that banks should be able to pay interest on small business checking accounts.
- Save Taxpayers Dollars by Ensuring Full and Open Competition to Government Contracts. Government contracting should not exclude small businesses in the bidding process. The President supports the following proposals to improve the access of small businesses to government contracts:
  - Ensure that government contracts are open to all small businesses that can supply the government's needs. Contracting should be accomplished through full and open competitive procedures. Therefore, the President has instructed the Director of the OMB to review contracting practices at agencies with significant procurement activities to determine whether their contracting practices reflect a strong commitment to full and open competition. OMB will also consult small businesses on this issue. OMB will report the results of the review and consultation to the President within 180 days, along with any recommendations for administrative action and proposed legislation.
  - Avoid unnecessary contract bundling. Small businesses bring innovation and lower costs to the government. When contracts are bundled together, small businesses are at a disadvantage if they are not capable of supplying all the contracts. Accordingly, the President has instructed the Director of the OMB to prepare a federal government strategy for unbundling contracts wherever practicable.
  - Streamline the appeals process for small businesses that contract with the federal government. Small businesses that work with the government should not have to face a costly, complicated and burdensome appeals process when they are in a dispute with the government over a contract. Currently, there are eight different executive branch civilian boards of contract appeals (BCAs) – all with different rules of procedure. In order to ease the administrative burden on small businesses, this legislative proposal would consolidate these eight BCAs into one board. The proposal would also require the consolidated BCA to review its rules of procedure to ensure processes remain simple, expeditious, and inexpensive.

### **Provide Small Businesses with the Information They Need to Succeed**

The federal government has numerous information sources to help provide small businesses with the information they need to succeed. These include:

- [www.businesslaw.gov](http://www.businesslaw.gov). This site is designed to help small businesses understand applicable federal and state rules and regulations. The Small Business Administration and the Department of Commerce are working to make the site even more useful to small businesses.
- [www.dol.gov/elaws](http://www.dol.gov/elaws). The Department of Labor provides compliance assistance to small businesses through "elaws," an interactive exchange that allows small business owners to ask questions about labor
- [www.sba.gov/advo](http://www.sba.gov/advo). The SBA Office of Advocacy web site provides advice on regulatory issues that pertain to small businesses.

- The U.S. Commercial Service. This section of the Commerce Department provides technical advice to small businesses to help them export their products to foreign countries. Services offered by the U.S. Commercial Service include: market entry and export counseling, market research, contract-matching services, trade events and trade missions, market access and advocacy assistance, and trade compliance information. These services can be accessed by calling 1-800-USA-TRADE or via the web at [www.export.gov](http://www.export.gov).
- Business Compliance Self-Service One-Stop. This internet site, which will be ready in 2003, will help small businesses go through the permitting, licensing, and regulatory steps required wherever they are located. This site will complement [businesslaw.gov](http://businesslaw.gov) by providing compliance assistance.