

Impact of Fiscal Policies on Small Business

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Office of Advocacy

- Created by Congress in 1976, the Office of Advocacy of the U.S. Small Business Administration (SBA) is an independent voice for small business within the federal government.
- Our mission is to serve as a voice for small businesses regarding:
 - Federal Regulation
 - Economic Research
- *Regulation*: Identify solutions or alternatives with the respective federal agency to minimize potential burden and unintended consequences on small businesses.

Office of Economic Research

- Examine the role of small business in the American economy;
- Analyze impact of tax policy on small businesses;
- Explore access to capital issues for small business;
- Identify characteristics and potential barriers for small business owners, including women, minorities and veteran owned entities; and
- Identify factors leading to small business successes and failures.

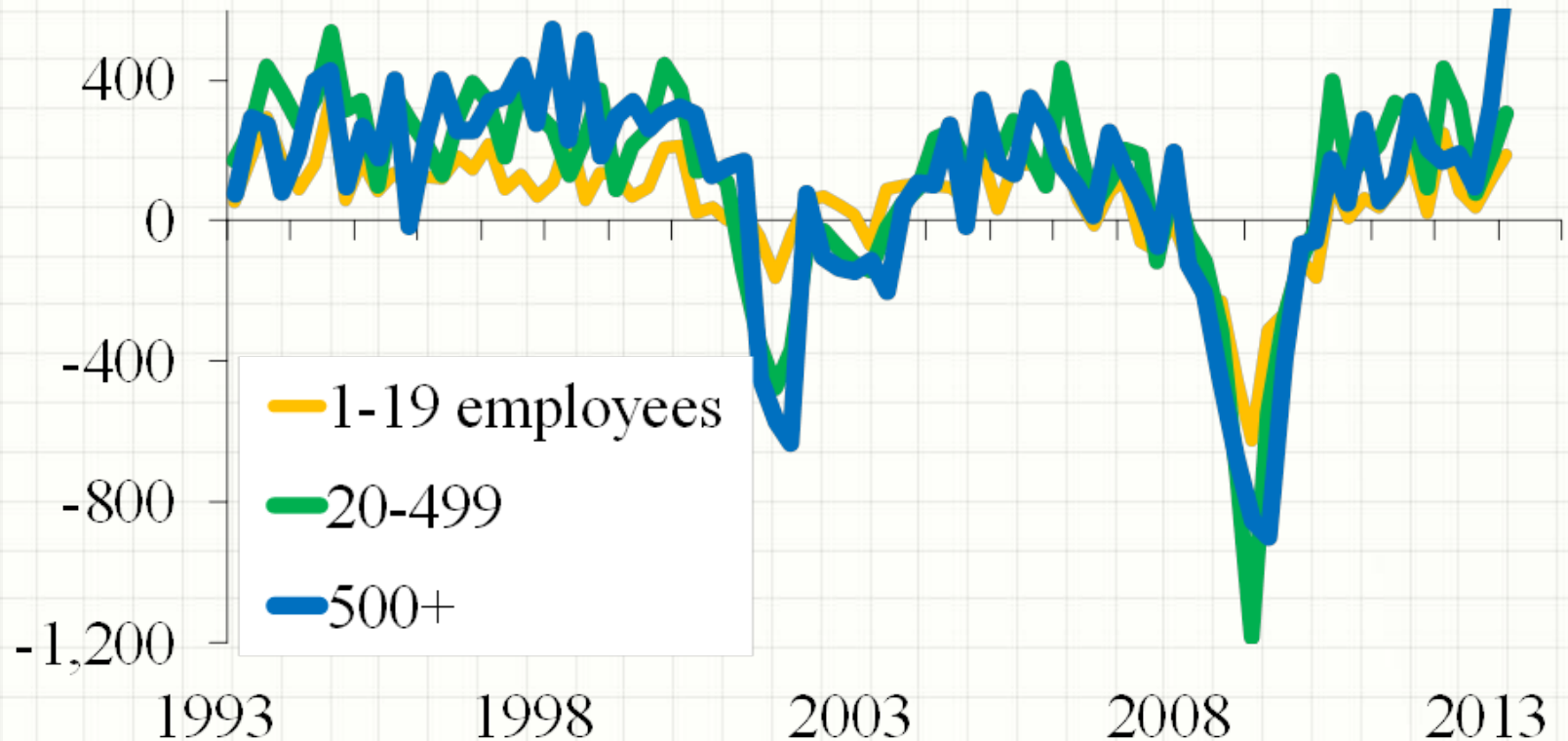
Overview of Fiscal Policy Impacts

- Small Business and the Economy
- Sequestration
 - Deficits vs. Debt
 - Discretionary vs. Mandatory Targets
 - Impact on Economic Activity on Small Businesses
- Tax Reform
 - Options and Obstacles
 - Small Business Tax Expenditures

Small Businesses in the US

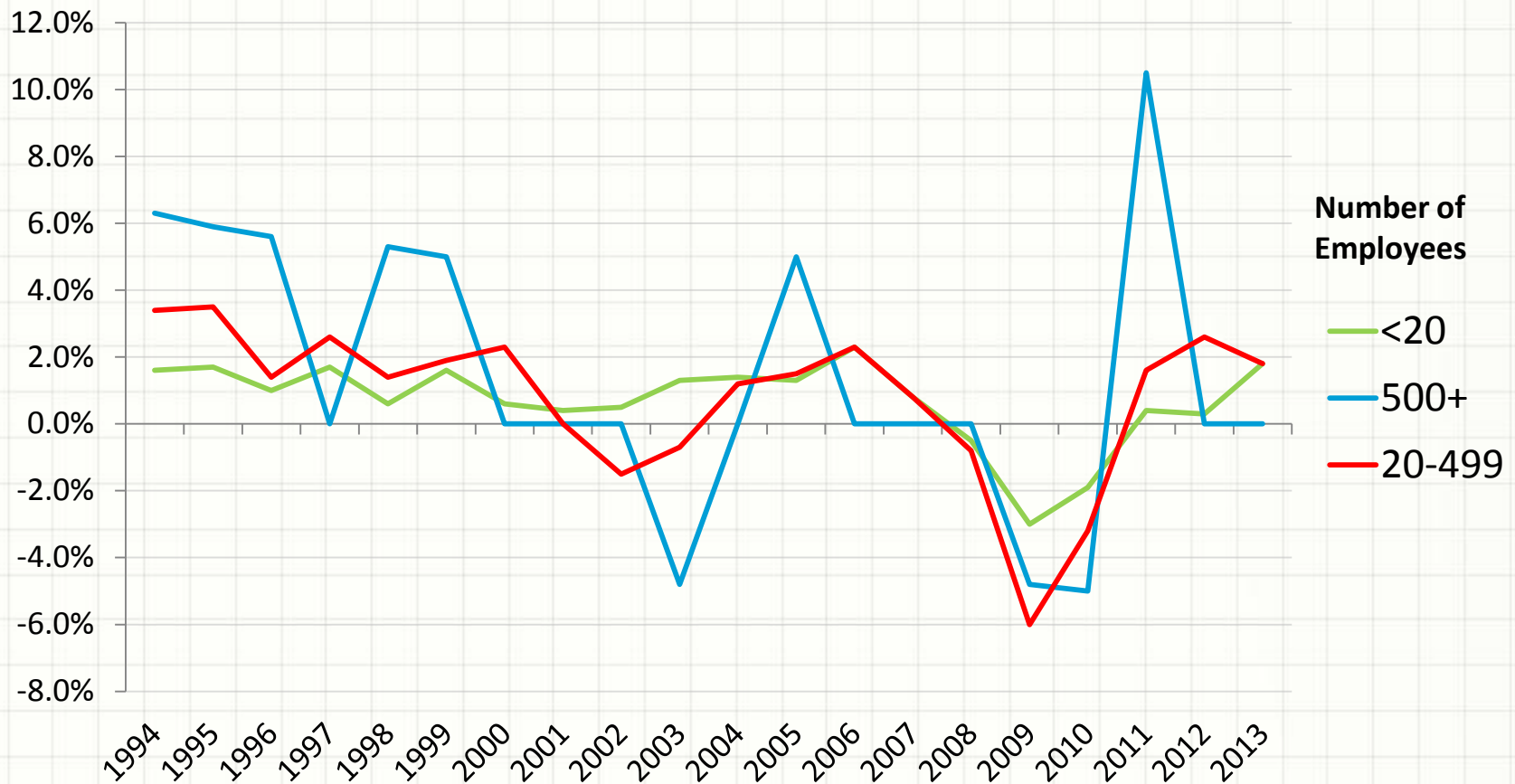
- 99.7 % of U.S. firms with <500 employees
- 64 % of the net new jobs in the private sector
- 46 % of private-sector output
- 98 % of firms exporting goods
- 33 % of exporting value

Employment Change by Firms Size As of 2013 Q1



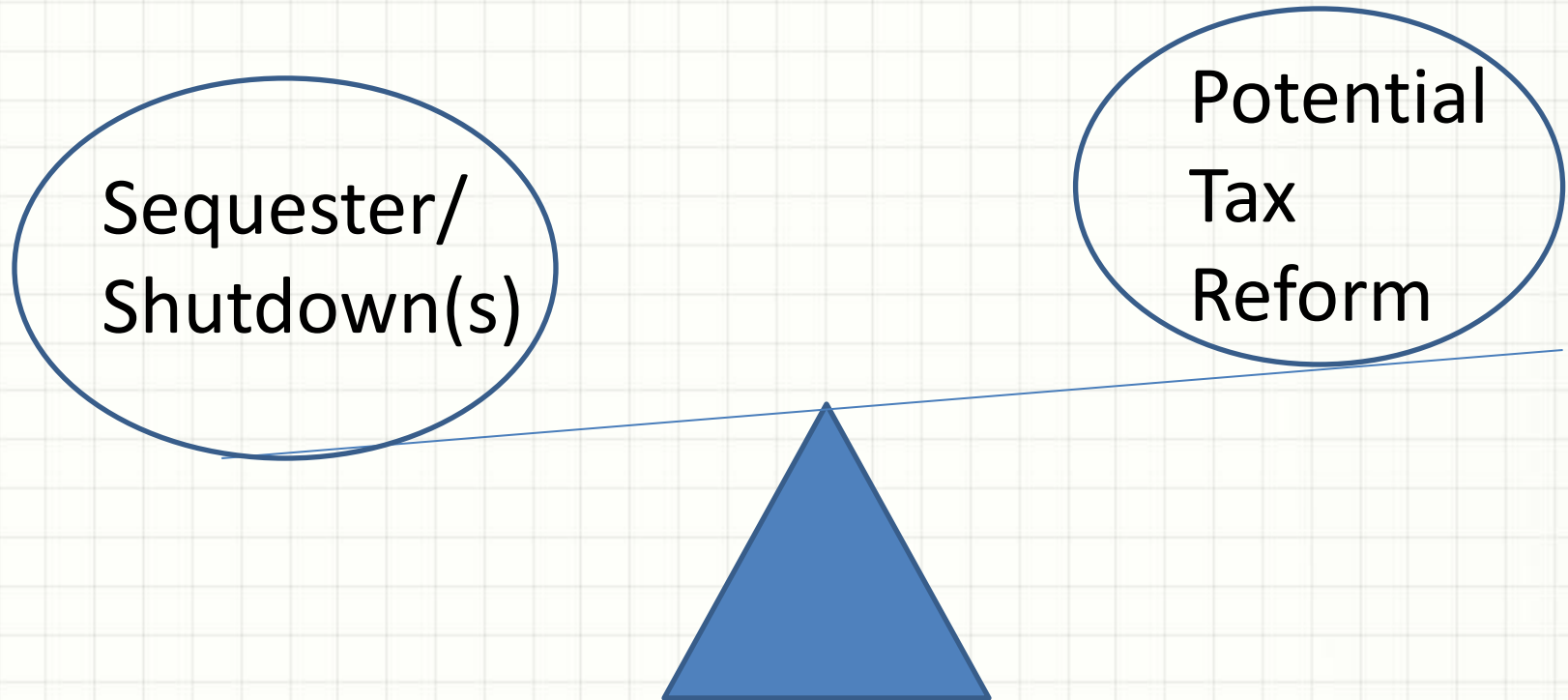
Source: Bureau of Labor Statistics,
Business Employment Dynamics.

Growth in Number of Small Firms Increasing as of 2013 Q1



Source: Bureau of Labor Statistics, Business Employment Dynamics

Challenges of Fiscal Policy



Federal Budget in Perspective: Deficits vs. Debt

	Billions of Dollars			Percentage of GDP		
	Actual 2009	Actual 2013	Projected 2015	Actual 2009	Actual 2013	Projected 2015
Total Revenues	2,105	2,813	3,399	14.6	17.5	19.3
Total Outlays	3,518	3,455	3,777	24.4	21.5	21.4
Deficit	-1,417	-642	-378	-9.8	-4.1	-2.1
Debt	7,545	12,036	13,156	54.1	75.1	74.6
	Sources of Outlays					
Discretionary	1,237	1,213	1,187	8.9	7.6	6.7
Mandatory	2,281	2,020	2,326	16.4	12.6	13.2
Net Interest	187	223	264	1.3	1.4	1.5

Source: Congressional Budget Office

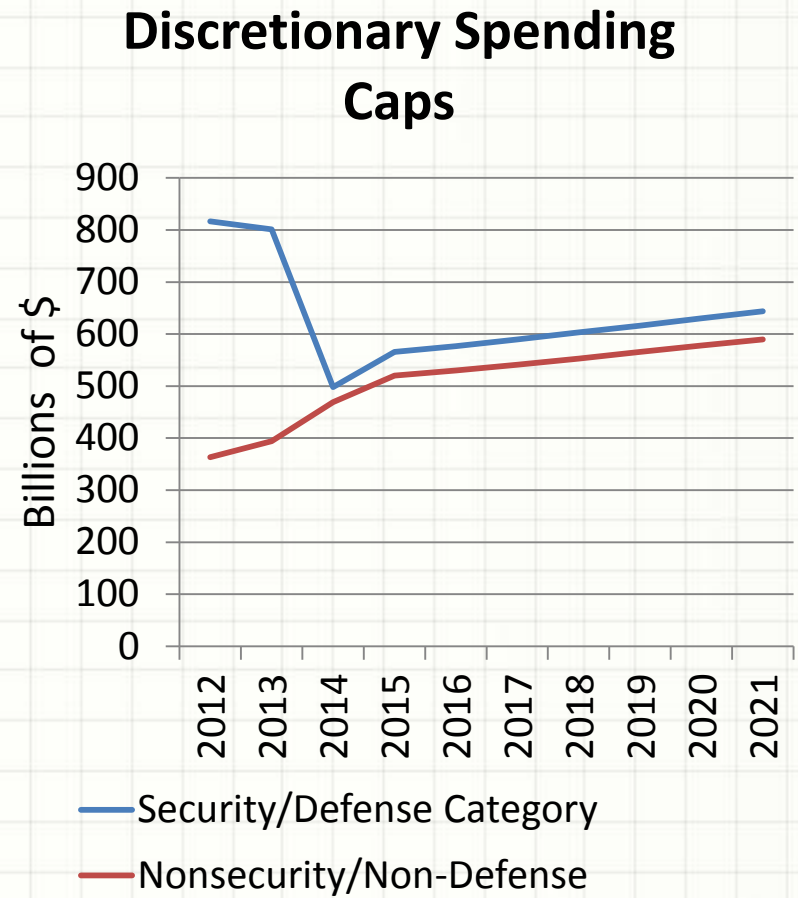
Federal Debt Held by the Public Under CBO's Extended Baseline

(Percentage of gross domestic product)



Sequestration: Across-the-Board and Only Affects Discretionary Spending

- Budget Control Act of 2011 implemented discretionary spending caps
- American Taxpayer Relief Act of 2012 modified caps
- About \$1 trillion of across the board cuts to discretionary spending over 10 years (\$100 billion a year)

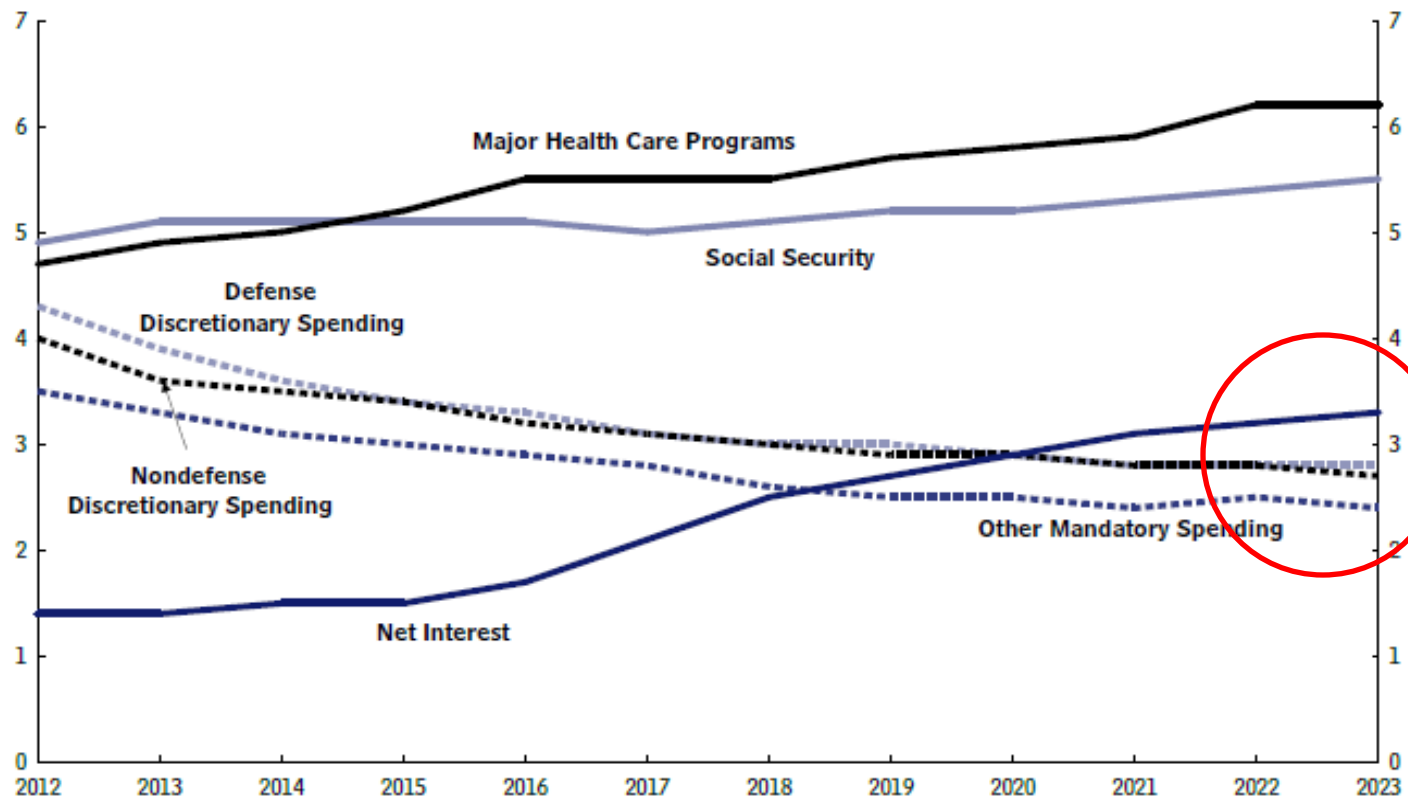


Source: CBO, current law. Does not include Ryan-Murray Budget Proposal.

Discretionary Spending Not the Key Source of Future Debt

Projected Spending for Major Budget Categories

(Percentage of gross domestic product before BEA revisions)



Economic Impact of Sequester: Dampen the Demand for SB Products

Entrepreneurship

Development of Product

Supply

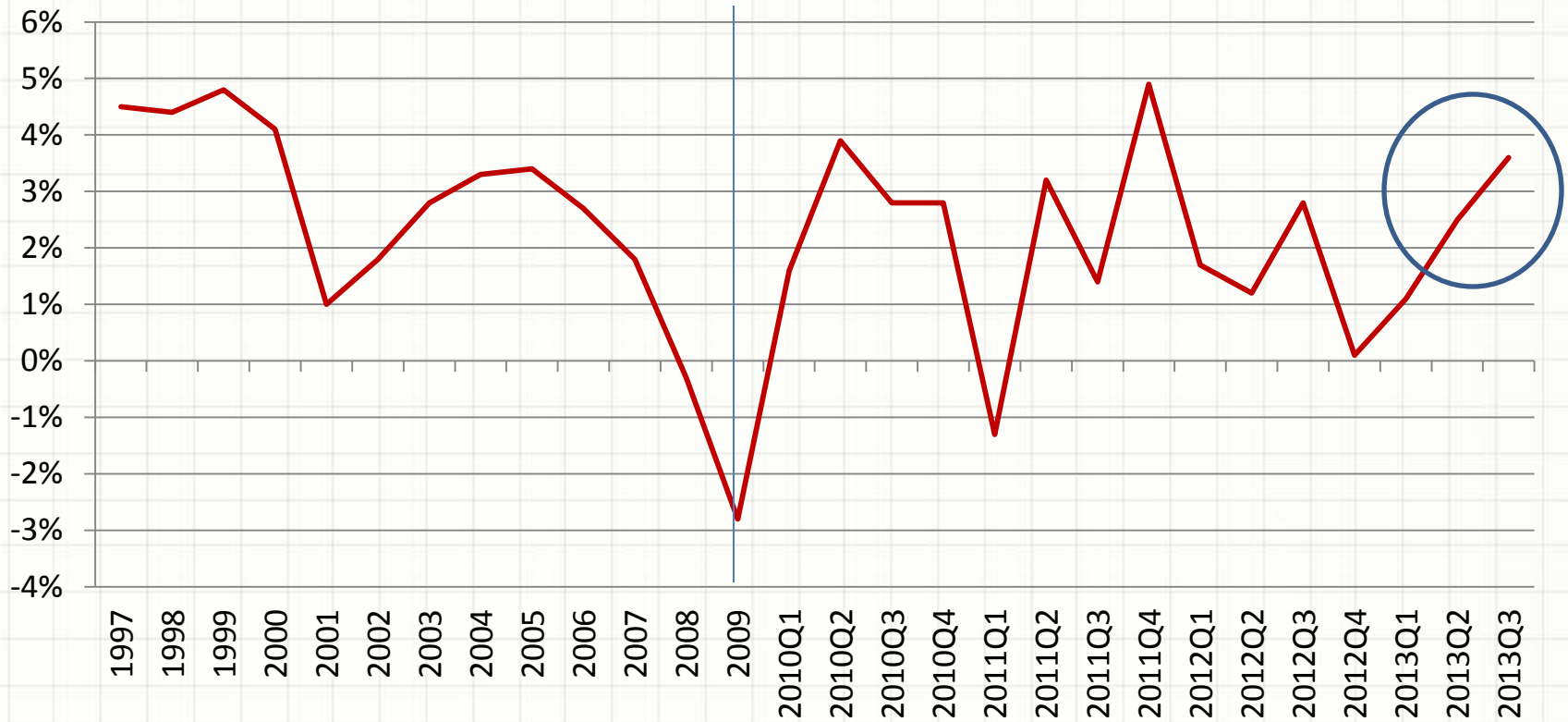
Production of Goods or Services

Demand

Bring to Market

Growth in Economy Improving But....

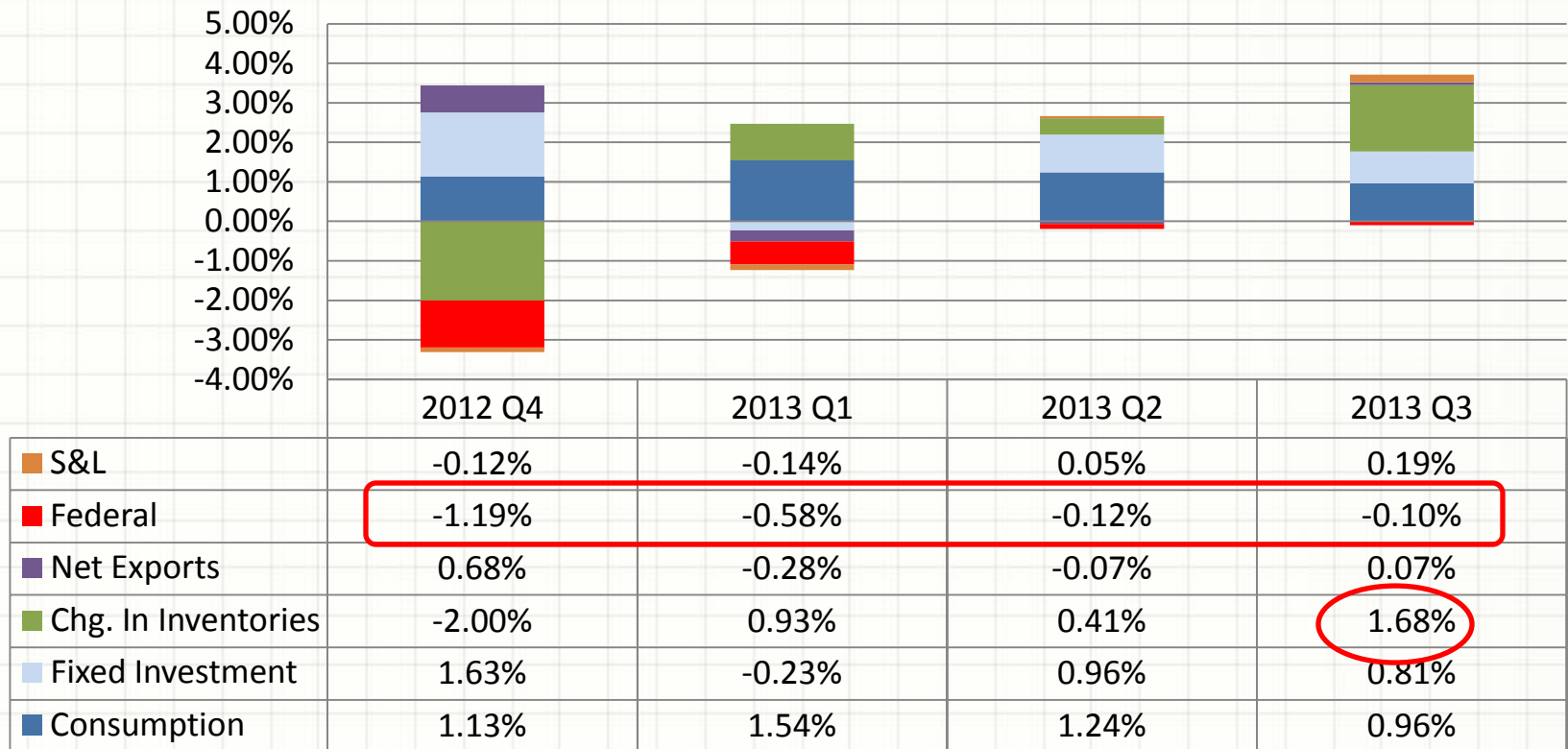
Growth in Real GDP



Source: Bureau of Economic Analysis

Government Spending and Inventories Distorting Trend

Contributions to Percent Change in Real GDP



Real GDP Growth Rate

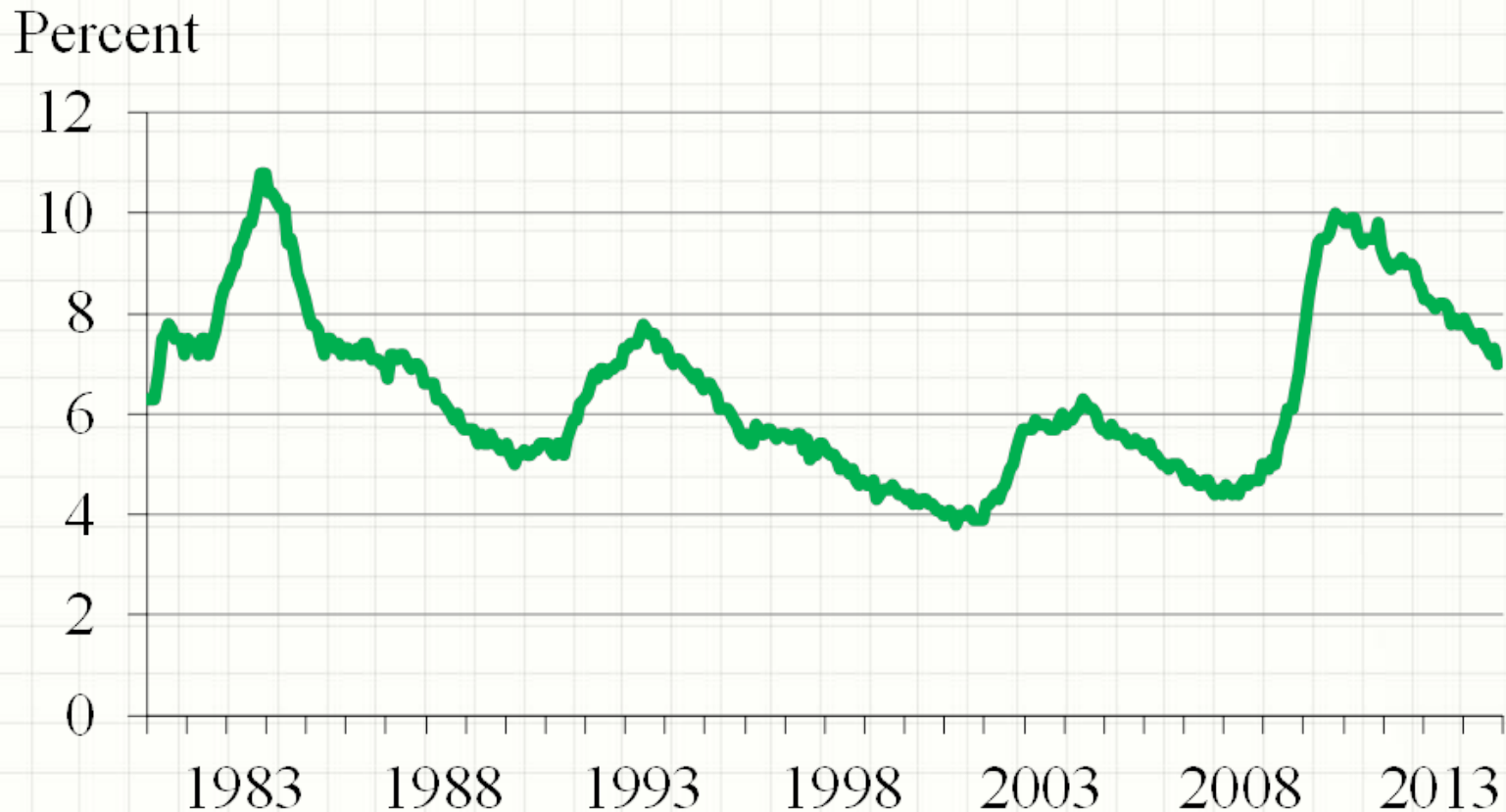
0.1%

1.1%

2.5%

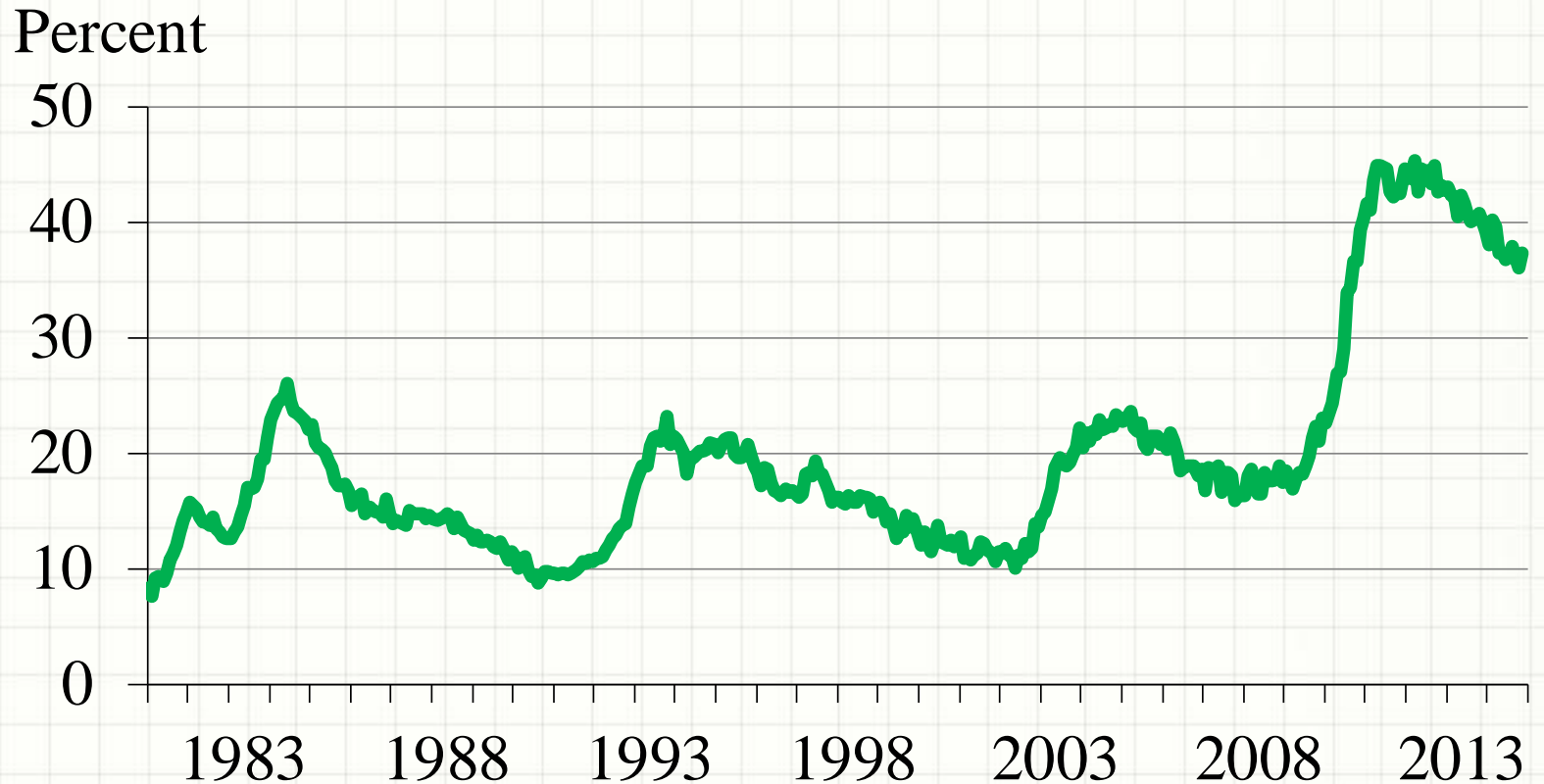
3.6%

Unemployment Rate is Declining But..



Source: Bureau of Labor Statistics

Share of Long-Term Unemployed Is Still High by Historical Standards



Source: Bureau of Labor Statistics.

Note: Long-term unemployed defined as being unemployed 6 months or longer.

The Federal Reserve to the Rescue

- Quantitative Easing holding down interest rates to historical lows
 - Increasing demand in interest sensitive durables and housing which help small business
- But is it sustainable?
 - Fed purchased more than \$4 trillion in government securities
 - When mature in 2016 and beyond, how will federal government pay back w/ budget targets still in effect.
 - \$215 billion in 2016
 - \$185 billion in 2017
 - \$342 billion in 2018

Federal Reserve Holds Down Interest Rates to Historical Lows

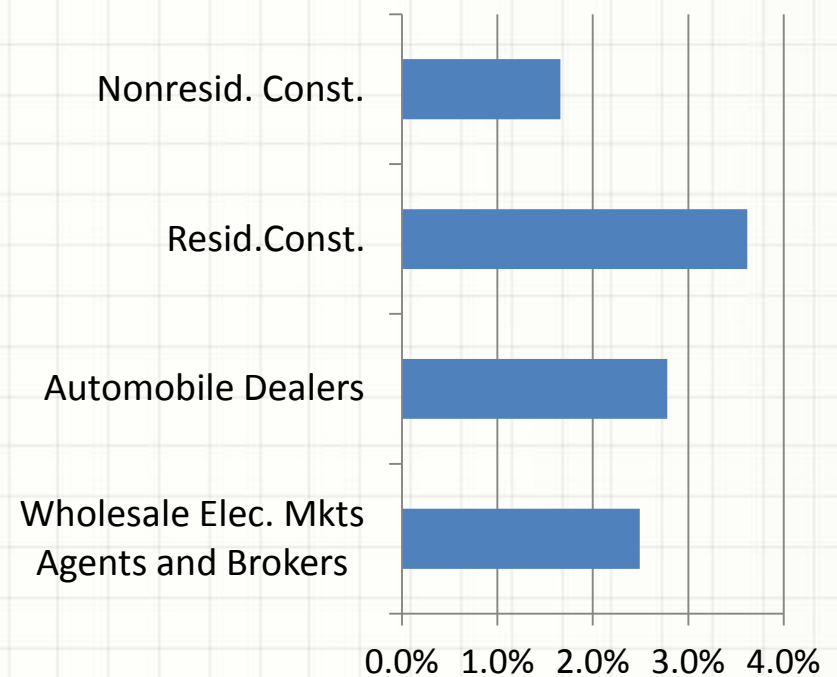
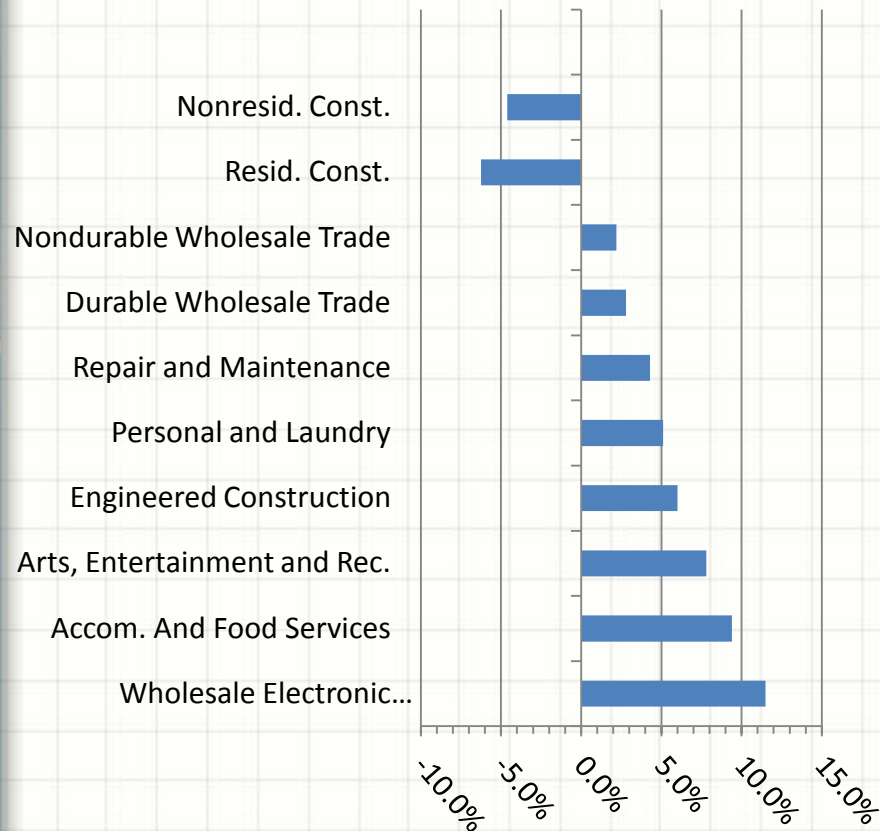
10-Year Treasury Yield



Jobs in Interest Sensitive Small Business Dominated Industries Grow

% Change in Employment Since Recovery Began

% Change Since Jan. 1, 2013 Interest Sensitive Industries



Tax Reform and Implications for Small Businesses

Options:

- Individual and/or Corporate Focus
- Budget neutral or raise revenues
- Targeted approach or comprehensive

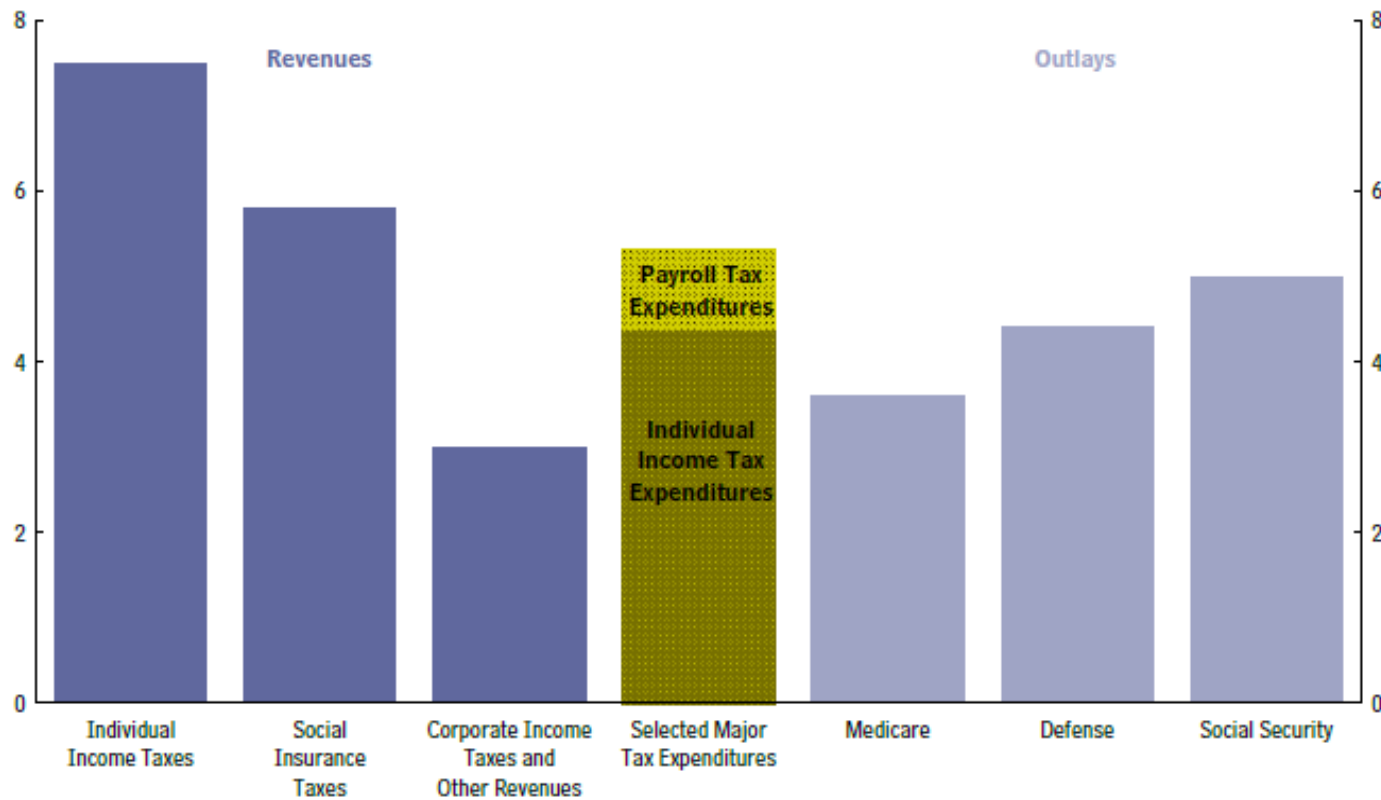
Obstacles:

- Special interests
- Politics and 2014 elections

Individual Tax Expenditures Provide Larger Revenue Target

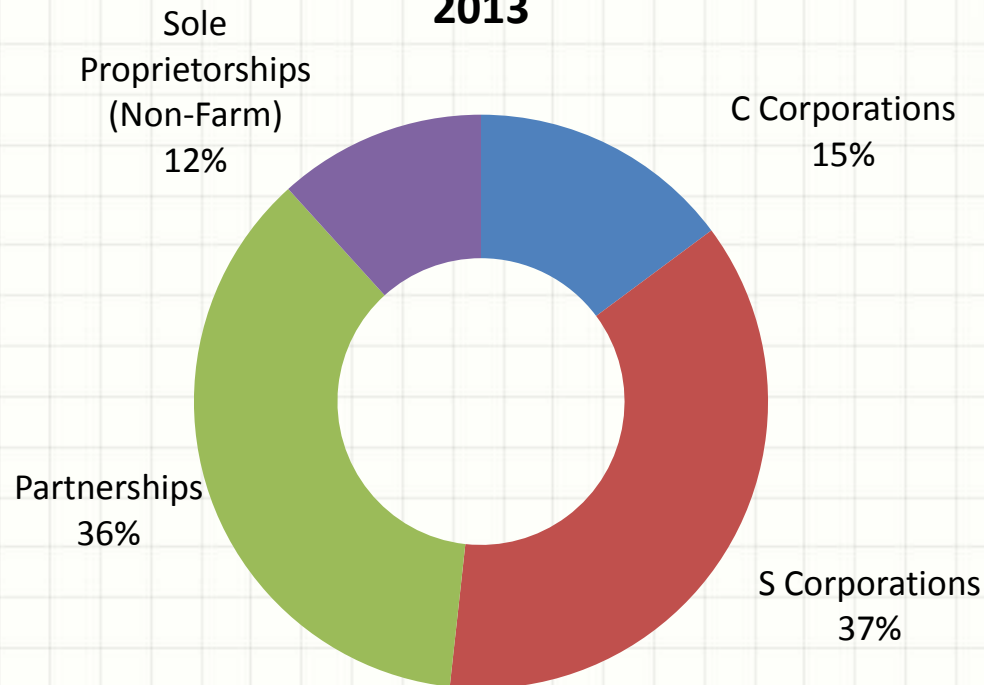
Selected Major Tax Expenditures in 2012, Compared with Other Categories of Revenues and Outlays

(Percentage of gross domestic product before BEA revisions)



Tax Expenditures for Small Business Pass-Through to Individual Tax Return

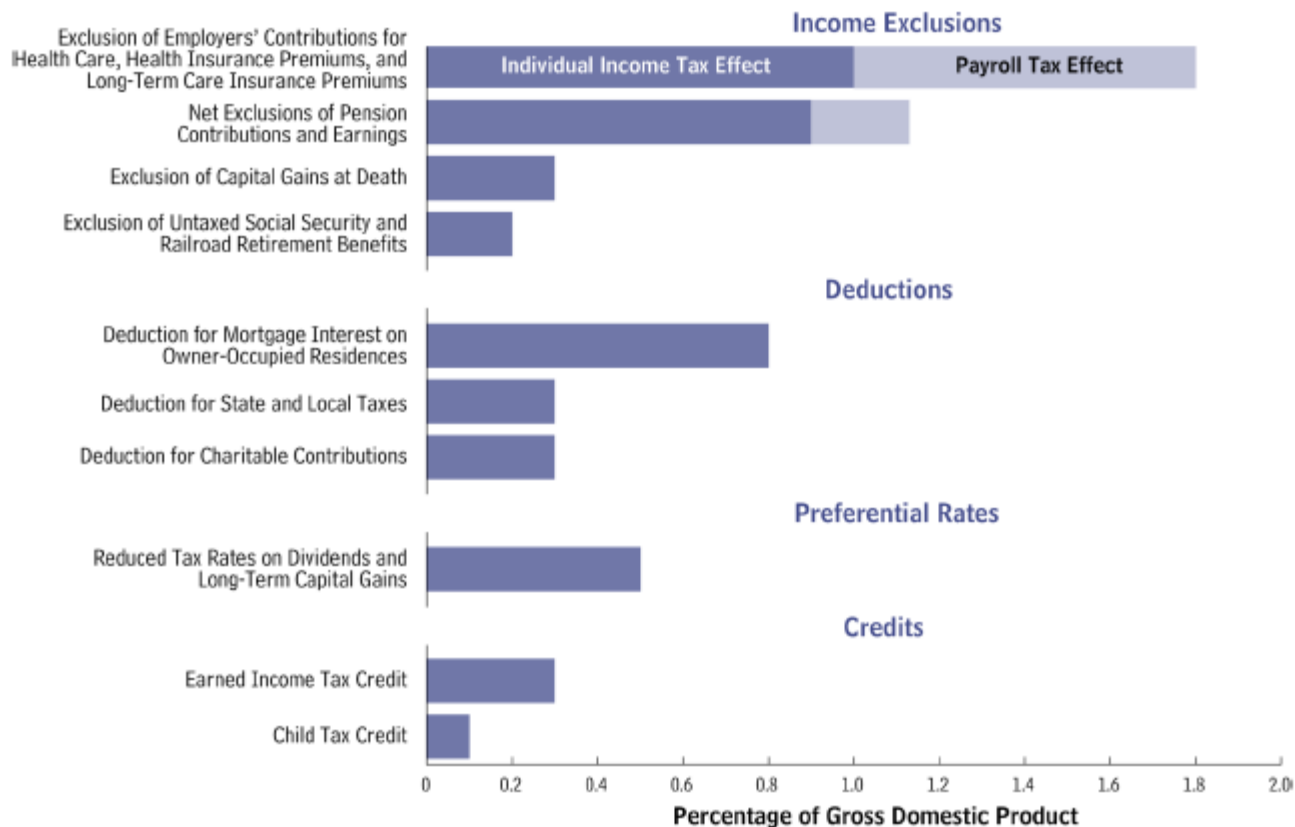
**Tax Expenditures by Small Business Entity Type,
2013**



Source: John O'Hare, Mary Schmitt, Judy Xanthopoulos, "Measuring the Benefit of Federal Tax Expenditures Used by Small Business," Quantria Strategies, November 2013.

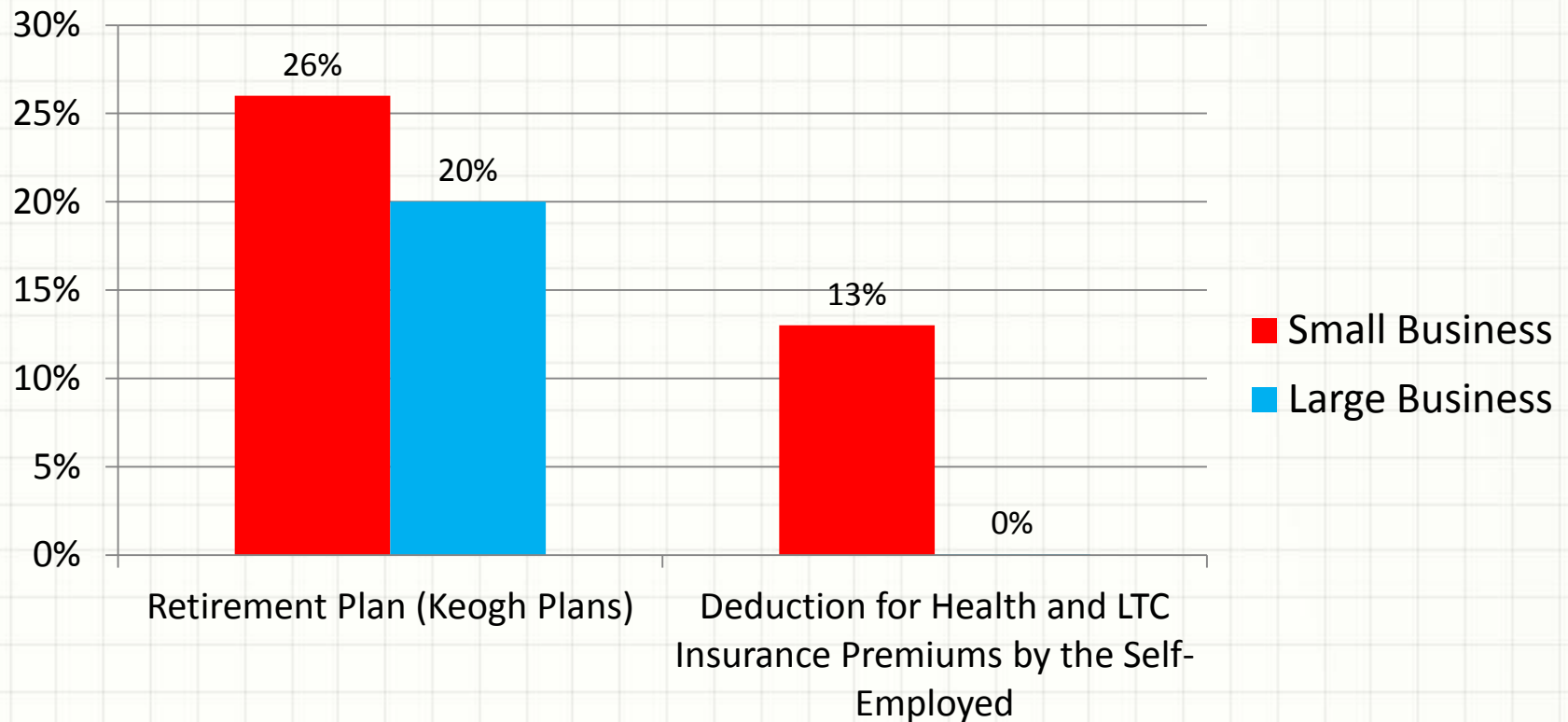
Health Premiums and Pensions Largest Individual Tax Expenditure

Effect of Selected Major Tax Expenditures, 2013 to 2022



Pension and Health Also Largest Tax Expenditures For Small Business

Tax Expenditures by Share of Total, 2013

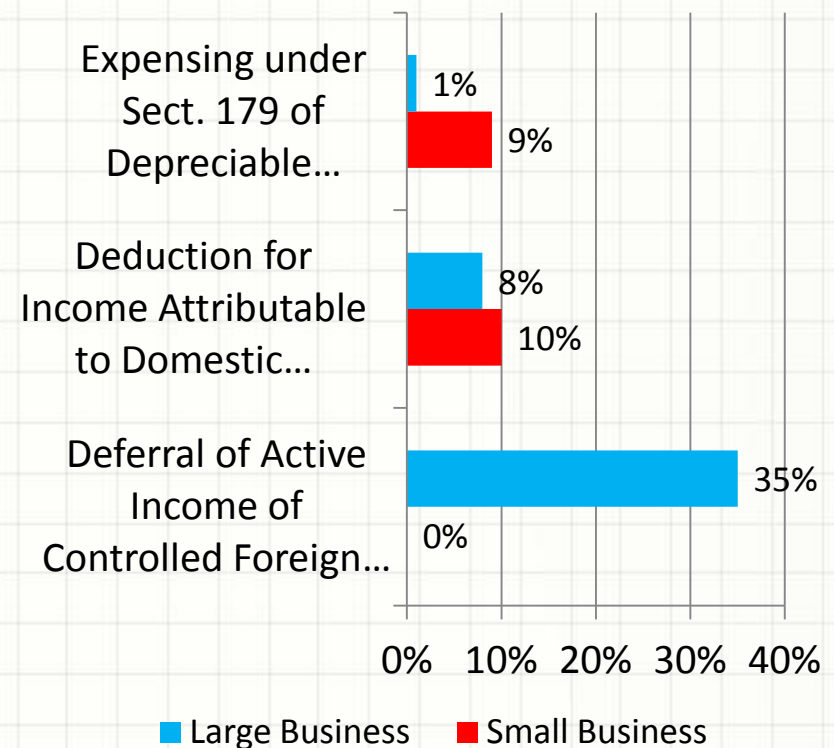


Source: John O'Hare, Mary Schmitt, Judy Xanthopoulos, "Measuring the Benefit of Federal Tax Expenditures Used by Small Business," Quantria Strategies, November 2013.

Other Tax Expenditures Important to Small Businesses

- Encourage U.S. domestic manufacturing and investment
 - IRC Sect. 199
- Promote investment by small businesses (expanded following great recession)
 - IRC Sect. 179
- Not important to small business
 - Deferral of active income of controlled foreign corporations

Tax Expenditure Share of Total, 2013



Conclusion

- Sequester doing more harm than good
 - Does not address real source of growing debt
 - Timing off and dampens economic activity
- Tax Reform may provide option for revenues
 - Must be targeted
 - Careful about unintended consequences

Questions

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