

How will the next President of the United States impact you as a small business owner?

By Christine Janssen, denken Research & Consulting

According to the Small Business Administration (SBA), there are nearly 26 million businesses in the United States and 99% of all of employers are categorized as small businesses. Small businesses are responsible for 45% of the payroll in the U.S. and they have also been responsible for generating well over 60% of new net jobs in the last decade. As a matter of fact, small businesses have created nearly 300,000 jobs so far this year. While their revenues may be small compared to the behemoths in Corporate America, small business owners are huge contributors to our economy and provide half of all jobs in the private sector.

We all know that politicians aren't saints, that federal spending is out of control, and that smoke and mirrors regularly come into play in Washington, especially at election time. These hard truths may have been accepted in the past, but not any more. The state of our economy and the ability to achieve The American Dream are being challenged. This Presidential election and the candidate's proposed strategies are incredibly critical to every one of us, but they are particularly important to small business owners, those who fuel our economy.

Following is an in-depth summary of a few issues that are arguably some of the most important to small business owners in America – Tax Reform, Health Care, and Economic Stimulus Plans. Within each category, only key issues relevant to small businesses were extracted from a wide variety of sources – from the candidates' official websites to the Wall Street Journal, from the Tax Policy Center to the National Federation of Independent Business. Resources for additional reading on these topics and more are embedded throughout the report. The purpose of this research was to uncover facts, to present findings from a variety of valid and reliable sources to avoid biased results, and to allow for a simple comparison of the plans each Presidential candidate has proposed. (Keep in mind that positions and details may change between now and November 4th, 2008.)

Tax Reform

The notion has long been held that Republicans cut taxes and Democrats raise them. Let's not kid ourselves... none of us wants to give the government more of our hard-earned cash, but given the debacle on Wall Street and our gargantuan federal deficit, we are faced with the reality that we may have to take a short-term hit to avoid negative consequences in the long run. We can no longer sweep these issues under the rug and pretend it's not our problem. Unfortunately, it is.

In order to gain control of our national debt, we need to take action to decrease it or at the very least reduce its growth rate. Despite the harsh reality, one of the worst things the government could do is stifle economic stability and growth by over-taxing small business owners. Following is a comparison of Senator McCain’s and Senator Obama’s proposals for future tax policies that are highly relevant to small businesses.

	McCain	Obama
Corporate Taxes	<p>Supports cutting the corporate tax rate from 35% to 25%.</p> <p>Proposes to allow businesses to write off capital expenses immediately. The objective is to provide an incentive to encourage capital spending and investment in innovative technology. The immediate benefit to small business owners will be lower corporate taxes under current tax laws, but it all depends on what type of corporate entity you are registered as.</p> <p>Considering repealing deductions for ‘domestic production activities.’</p>	<p>Proposes to cut corporate taxes for companies that invest in supporting the U.S. and creating jobs for Americans.</p> <p>Partnerships that go public will be subject to pay corporate income taxes.</p>
Personal Income Taxes	<p>Maintain highest tax rate at 35%.</p>	<p>Proposing higher tax rates for families earning more than \$250,000 a year (or individuals who earn more than \$200,000 a year). An increase of 2-4% would be spread between the employer and employee.</p>
Existing Tax Cuts Under GW	<p>Supports GW’s tax cuts from 2001 and 2003, which are set to expire in 2010, and would like to make these tax cuts permanent (except for the estate tax appeal).</p>	<p>Supports GW’s tax cuts from 2001 and 2003, which are set to expire in 2010, and would like to make these tax cuts permanent.</p> <p>Tax cuts will only apply to families earning less than \$250,000 a year (or individuals who earn less than \$200,000 a year). Tax cuts for the wealthy will expire in 2010.</p>

Tax Filing	Proposes to give taxpayers the opportunity to opt out of the existing tax structure in lieu of a simplified tax system with only two tax rates and a 'generous' standard deduction.	Supports dramatically simplifying the process of filing taxes by consolidating existing tax credits and using pre-filled forms to easily verify, sign, and return. Wants to empower taxpayers to easily and affordably file their own taxes.
Alternative Minimum Tax	Plans to phase out AMT entirely, even for the wealthy who the program was initially created for. *Note: McCain's approach to AMT widely varies – from reform to repeal to elimination – depending on the source.	Extend and index 2007 AMT patch to avoid its negative impact on most middle-class taxpayers.
Technology	Plans to permanently ban Internet taxes and any new taxes on mobile phones.	
R&D	Proposes to establish a permanent tax credit for R&D spending, equal to 10% of wages spent on R&D. The purpose is to provide incentives for businesses to innovate and maintain a competitive position in the global marketplace.	Supports a permanent R&D tax credit as well as increased federal funding for research, technology and alternative energy sources to spark innovation.
Capital Gains Taxes	Keep current rate on capital gains and dividend taxes, which is 15%, regardless of size of business.	Proposes to increase the capital gains and dividend tax rate to 20%, but this will impact more large companies, not small. Eliminate capital gains taxes for small business owners while providing incentives for investors to support American businesses. The objective is to support job creation, innovation, and the ability to raise capital. Share sales of small companies will not be subject to capital gains taxes.

Comments & Questions:

- The bottom line about AMT as it stands today is that as you make more money, you will continue to be taxed at an exponentially higher rate. So where is the incentive for people to make more money, build businesses, and create a better life for their families?
- Three out of four small business owners pay taxes based on their personal income, not according to corporate tax laws. Will sole proprietors who file taxes as individuals be punished for their financial successes?
- Ninety-eight percent of small businesses have annual revenues less than \$250,000, and 75% fall into the 25% income tax bracket or lower. Under Obama's tax plan, the majority of small business owners will therefore see their taxes decrease. Larger corporations will bear the burden of higher taxes.
- Twenty percent of all small businesses are set up as corporations, so you need to do your homework on how to best position yourself as a taxpayer – as an individual or as a corporation.
- No matter how you slice it, both of their plans would significantly increase the national debt over the next decade. The Tax Policy Center, a non-partisan joint venture between The Urban Institute and The Brookings Institution, estimates that Obama's plan would reduce taxes by \$2.9 trillion by 2019. McCain fares a bit better with an estimated reduction of \$4.2 trillion. (These numbers can change drastically depending on a variety of factors, including other tax policies.) And neither plan would make much of a dent in stimulating our economy unless they also instill significant spending cuts on existing programs.

Additional Resources:

Click here to view McCain's pro-growth tax policy: <http://www.johnmccain.com/Issues/Job sforAmerica/taxes.htm>

Click here to view Obama's Comprehensive Tax Plan: http://www.barackobama.com/pdf/taxes/Factsheet_Tax_Plan_FINAL.pdf

Click here to read more about the Alternative Minimum Tax: http://en.wikipedia.org/wiki/Alternative_Minimum_Tax

Health Care

One of the gravest problems our country faces today is the lack of affordable, universal health care coverage. Increasing costs pose a serious problem for employers and employees alike. Following is a summary of health care issues that will likely impact you as a small business

owner. Keep in mind that the selected topics were purposefully included to provide a big-picture view of the candidates' plans. Since their plans are rather vague, it is difficult to understand just how small business owners will ultimately be impacted.

	McCain	Obama
Medicare	<p>Supports cutting Medicaid and Medicare costs and reforming the payment system.</p> <p>Proposes that wealthy citizens on the Medicare drug program should pay higher premiums.</p>	<p>Proposes to expand eligibility for Medicaid programs.</p> <p>Reduce Medicare costs by allowing government to negotiate affordable prescription drug costs.</p>
Access & Control	<p>Supports reducing government involvement, decreasing regulation, and enabling people to choose between employer-offered plans or alternative plans.</p> <p>Supports making medical information such as treatment options, physician records, and costs publicly available.</p> <p>Encourages healthy competition amongst insurance providers to reduce premiums.</p> <p>Promotes collaborative care from healthcare professionals and insurance providers to provide the best care with minimal errors and paperwork.</p> <p>Enable physicians to practice across state lines.</p> <p>Encourage individual states to participate in Guaranteed Access Plans to cover people with pre-existing conditions that otherwise can't obtain coverage. Federal funds will be used to incentivize states to buy into these plans; this money will likely be extracted from current Medicare funds.</p> <p>Encourage insurance companies to offer innovative, multi-year plans.</p>	<p>Proposes a national healthcare program that is high quality, affordable, portable and available to every American citizen, including small business owners and those who are self employed. The plan would offer comprehensive benefits (on par with federal employees) and eligibility would be guaranteed.</p> <p>Proposes to develop a National Health Insurance Exchange (NHIE) from which individuals can choose the best plan given their personal needs.</p> <p>Encourage competition amongst insurance providers through the NHIE by regulating healthcare premiums.</p>

Employer Obligations	<p>Eliminate favorable tax breaks for employer-sponsored plans. Transfer the responsibility to individuals to incentivize them to obtain their own coverage.</p> <p>Opposes mandated coverage.</p>	<p>Require employers to provide health insurance or contribute to a fund that does. Small businesses would be exempt.</p>
Tax Credits & Subsidies	<p>Offer all citizens a refundable tax credit (\$2500 for individuals, \$5000 for families) as a reimbursement for the cost of health insurance.</p> <p>In addition to a tax credit, offer income-related subsidies to individuals who enroll in a Guaranteed Access Plan, a best practice model based on multi-state collaboration.</p> <p>If a credit is greater than the premium, the excess monies would be deposited into a Health Savings Account.</p>	<p>Proposes offering the Small Business Health Tax Credit to small business owners who pay for employee benefits. Small business owners would receive a refund of up to 50% of premiums paid if they pay a meaningful share of the cost.</p> <p>Provide subsidies to partially reimburse employers for catastrophic health care costs of their employees to control volatility and rising premiums.</p> <p>Offer income-related subsidies to help individuals pay for the public plan.</p>
Prescription Drugs	<p>Permit the import of safe prescription drugs and swiftly introduce generic options.</p>	<p>Permit the import of safe prescription drugs and swiftly introduce generic options.</p>
Prevention	<p>Promote proactive education and preventative measures to reduce medical expenses.</p>	<p>Promote wellness and prevention in schools, via public education, and by rewarding employers for proactive efforts to promote healthy lifestyles and choices.</p>
Research	<p>Supports federal research on chronic diseases and finding cures, especially autism.</p>	<p>Proposes increased funding for biomedical research, AIDS, and autism.</p>
Health Savings Accounts	<p>Supports HSAs as an innovative tool for managing health care costs.</p>	<p>Opposes HSAs, claiming they are expensive and inefficient.</p>

Technology	Supports immediate and rapid deployment of automated systems and electronic medical records to decrease paperwork, minimize errors, etc.	Proposes to invest \$50 billion to utilize technology nationwide to electronically manage medical records and other health information.
------------	--	---

Comments & Questions:

- How often will we receive tax credits as proposed by McCain? Every year? Just once? Will the amount of the tax credit be adjusted to reflect geographically-based cost of living differences or income levels?
- Obama states that small businesses would not be required to provide health insurance to employees, but how does he define ‘small business’? What are the requirements or cutoffs? Is the exemption based on sales, revenues, number of employees, or nature of business?
- McCain has yet to specify how his proposed health care plan will be funded and exactly how much it will cost; however, he alludes to cost containment measures to make insurance more affordable to more people. His plan to empower individuals to manage their healthcare is intriguing, and taking the onus off of employers would actually give small business owners relief, but an open market would need to be regulated. One of the biggest problems with McCain’s health care program is that health care premiums are subject to being taxed, which will eat into the tax credits he’s offering.
- Obama estimates that his plan will address the root causes of our health care inefficiencies and will cost somewhere in the neighborhood of \$50-65 billion a year. He plans to fund his efforts via increased taxes on those who earn in excess of \$250,000 a year and from savings within the existing health care system. Where exactly will those savings come from? Which programs will be reduced?
- Experts admit that neither plan comes close to achieving universal coverage anytime soon. In addition, both plans are very expensive and it is still uncertain where the funding for all these programs is coming from.

Additional Resources:

Click here to view McCain’s plan for health care reform: <http://www.johnmccain.com/Informing/Issues/19ba2f1c-c03f-4ac2-8cd5-5cf2edb527cf.htm>

Click here to view Obama’s comprehensive health care plan: <http://www.barackobama.com/pdf/issues/HealthCareFullPlan.pdf>

Over the past 10-15 years, health care reform committees have largely overlooked the needs of small businesses. In response, the National Federation of Independent Business (www.nfib.org) developed the ‘Small Business Principles for Healthcare Reform’ to guide lawmakers on making the necessary changes. On NFIB’s agenda: 1) providing customized and affordable benefits packages to employers, employees, and the self-employed, 2) changing tax laws to deduct 100% of health care insurance, and 3) enabling small business owners to pool together to obtain favorable insurance rates and coverage. If you want to make your voice heard to policymakers on health care issues, consider getting involved with NFIB’s ‘Solutions Start Here’ program (www.FixedForAmerica.com).

For additional information on current health care reform issues, visit the following sites sponsored by the Henry J. Kaiser Family Foundation: www.kff.org, www.health08.org.

Economic Stimulus Plans

According to a recent segment on CBS Evening News, so far this year, over 28,000 small business owners have been denied loans to help start or grow their businesses. As credit continues to dry up, this is a serious problem that could determine whether or not you can keep your doors open. And despite the fact that over 28% of small businesses are owned by women, less than 4% of those are backed by VC funding. Even worse, less than 1% of minority-owned businesses receive VC support. Apparently there are billions of dollars in the U.S. available for new venture funding. How will banks and potential investors be incentivized to open their coffers and assist businesses that need it most?

Given that more than two-thirds of small businesses are significantly impacted by the credit crunch, a comprehensive, action-oriented plan needs to be implemented not only to free up credit, but also to stimulate the economy from the ground up. Here is how each candidate proposes to do so:

	McCain	Obama
Access to Capital		Co-sponsor of the Small Business Lending and Reauthorization and Improvements Act, which was created to revamp small business loan programs, thus providing short-term and long-term financing for start-ups that can’t obtain capital through traditional channels. His goal is to increase the number of lenders and simplify the approval process to enable more entrepreneurs to get immediate financial assistance.

Tax Breaks	Allow business owners to deduct 3- and 5-year equipment in year one, thereby reducing total tax outlay.	<p>Proposing a new tax cut for small businesses and micro-enterprises of 20% on up to \$50,000 of investments in small owner-operated businesses.</p> <p>Provide a \$500 “Make Work Pay” tax credit to all workers. Self-employed small business owners are currently subject to paying double payroll taxes, therefore this credit will be introduced to reduce their tax burden.</p>
Technology		Ensure all Americans have access to affordable, high-speed Internet access to enable urban and rural companies alike the opportunity to be competitive.
Trade Agreements	<p>Would keep NAFTA as is.</p> <p>In favor of the Columbia Free Trade Agreement.</p>	<p>Wants to renegotiate NAFTA to better protect workers and the environment.</p> <p>Does not support the Columbia Free Trade Agreement.</p>
Start-up Incentives	Provide tax credits for renewable energy as well as incentives to develop clean energy.	<p>Provide incentives for VC firms to invest in start-ups, particularly those that address renewable energy.</p> <p>Proposes creating a National Network of Public-Private Business Incubators to support entrepreneurs, from business plan development to securing workspace to offering advice on business practices. Network experts will include those from academia as well as the private sector. Plans to invest an additional \$250 million a year to assist those in under-privileged communities.</p> <p>Plans to incentivize small businesses and new farmers, and to also reduce self-employment tax.</p>

Small Business Administration (SBA)	Supports the SBA as long as there is better oversight and financial management of the organization. Regards the SBA mostly as a vehicle for small business owners to voice their opinions on public policy.	Proposes to expand SBA's loan programs, and to provide more resources to both minority- and women-owned businesses.
Assistance for Women and Minorities		<p>Developed a plan to address the fair advancement of women and minorities.</p> <p>Plans to implement the Women Owned Business contracting program to give women-owned businesses more opportunities to engage in federal contracts.</p>

Comments & Questions:

- Both candidates claim they will offer incentives for investing in renewable and clean energy, but who specifically will this benefit? What are the requirements? And are those the only start-ups that will receive special incentives?
- According to ForeignPolicy.com, renegotiating NAFTA (which accounts for one third of American exports) would hurt the U.S. more than help us. While greater economic development in Mexico would indeed reduce illegal immigration in the U.S., pulling NAFTA apart would likely encourage Canada and Mexico to bypass the U.S. in future negotiations and seek agreements of their own.
- Both plans heavily focus on technology, engineering, and energy – which is understandable; however, despite the fact that start-ups in these high-tech industries tend to contribute more to GDP and job creation when compared to other industries, there are thousands of small (non-tech) businesses in this country that are respectable businesses and contribute to society in a variety of ways. They are the backbone of Main Street America and deserve incentives, tax breaks, and funding opportunities just the same. Both candidates need to acknowledge and specifically address this group of well-educated, innovative entrepreneurs.
- Women account for an increasing percentage of American workers, entrepreneurs, and innovators. Obama's ten-point plan was crafted to give women equal opportunities to excel in their careers and to balance work/life obligations; however, he almost entirely overlooks the needs of high-potential working women, especially female entrepreneurs and small business owners. How will his administration help women-owned businesses

access capital and grant money? What specific tax breaks they will receive? What resources will be available to them?

Additional Resources:

Click here to view McCain's economic plan to support small business: <http://www.johnmccain.com/Issues/JobsforAmerica/smallbusiness.htm>

Click here to view Obama's complete economic plan: <http://origin.barackobama.com/issues/economy>

Click here to read Obama's report entitled "The Impact of the Obama Economic Plan for America's Working Women": http://obama.3cdn.net/51f774d367c050dd21_ram6bhdat.pdf

Click here to read "The Growth Solution," a thought-provoking article on entrepreneurial capitalism recently written by Economists Carl Schramm and Robert E. Litan: http://www.kauffman.org/pdf/growth_solution070308.pdf

Despite all the proposed programs and policies set forth during this campaign, history shows that a newly elected President of the United States rarely stands up to his promises and meets our expectations, especially when it comes to taxes. According to W. Elliot Brownlee, historian and author of *Federal Taxation in America: A Short History*, all we need to do is take a peek at history. Brownlee claims that significant and meaningful tax reform will only be sparked by a national crisis. Since the birth of this country, there have only been five major tax regimes, and they were all introduced when we were at war or knee-deep in an economic depression. Folks, it looks like we're in luck. It sounds like this is a perfect time for a tax policy overhaul. That's the good news. Here's the bad news: While such crises prompt reform, it rarely develops and structures it. The leaders of our country can never quite figure out how to create a fair and just plan that meets both fiscal and social needs.

What is a continued source of frustration is the lack of details and definitions from both candidates, as well as a clear-cut budget where all the money is coming from to fund their plans. Such details can make a big difference in the net impact and results of their individual proposals. Every retailer knows that their success largely depends on location, location, location. Senators McCain and Obama should likewise be more in tune to the fact that the success of their campaigns and winning over undecided voters will come down to delivering details, details, details. Also, time is of the essence. None of these plans are going to significantly impact our lives unless they are executed expediently.

In the words of world-famous economist Peter Schumpeter, "the engine of the economic growth that raises everyone's living standards is entrepreneurship." But in order for entrepreneurs to risk their livelihood and hard-earned capital, they need – and deserve – to be sufficiently incentivized and supported. The alternatives are economic stagnation, a decreased standard of living, limited job creation, and decreased competitive positioning in the global marketplace.

While the President plays an important role in how quickly our economy grows given the policies he supports, it is not government that generates growth. The private sector does. But the success and growth of the private sector largely depends on the rules, incentives and infrastructure established by our government. Without question, our government needs to champion innovation and support entrepreneurs. What American citizens want and need is a detailed plan explaining not only how the next President and Congress are going to get us out of the mess we are in, but also how we are going to re-establish ourselves as a fierce global competitor. It is their responsibility to keep that American entrepreneurial spirit alive by laying out policies that quickly enable entrepreneurs to push forward with minimal roadblocks. We are a country of very intelligent citizens. It is imperative that our leaders focus on restoring the strength of our own country and the talented folks therein.

[Christine Janssen](#) is the Founder and President of [denken Research & Consulting](#), a boutique research and consulting firm in New York City, providing end-to-end research and writing services to entrepreneurs. She is also a Marketing instructor at The Mountbatten Institute and a Doctoral Candidate at New York University where she is conducting a study on female entrepreneurs.