



# SBLC WEEKLY

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## **STIMULATING CONVERSATION**

This being a congressional election year, the folks on Capitol Hill believe we should have at least one more conversation about short-term economic stimuli. This being Washington, it has to have a partisan ring tone.

House Majority Leader Eric Cantor (R-VA) has introduced H.R. 9, the Small Business Tax Cut Act that would allow profitable small businesses to reduce their tax liability by up to 20 percent for one year (the current taxable year for most). There a number of eligibility conditions that must be met to be and limitations on how much can be deducted. A small business is one with less than 500 full time employee equivalents for the purpose of the bill. The reduction is limited to not more than 50 percent of wages paid in the year.

For some of you, the concept may ring a bell because it is similar to Internal Revenue Code Section 199 that allows businesses to reduce their tax liability by up to nine percent for income received from domestic production activities. (In fact, the bill creates a new Section 200, right next door to Section 199.)

Now, for a bunch of you, you are not involved in “domestic production activities” so the current Section 199 is of no use. (The definition of product activities in current section 199 is quite broad so the universe of folks eligible for the current section 199 is bigger than you think.)

For those eligible for the reduction in taxable income under current section 199, H.R. 9 does not allow a business to “double count” so you are limited to the 20 percent rather than a combining the 20 percent and the nine percent. It is possible that you may only have heard about the existing Section 199 recently from your tax advisors. Section 199 was enacted in 2005 and started out at three percent. It only increased to the maximum nine percent as the economy soured. As a result, many businesses did not have the taxable income to reduce. (There is no employee size restriction on Section 199 and unlike the proposed Section 200, Section 199 is permanent.) ***The House is expected to vote on H.R. 9 this week.***

Senate Majority Leader Harry Reid (D-NV) has introduced S. 2237, the Small Business Jobs and Tax Relief Act. His bill would provide a one-time tax credit of up to ten percent of the increase in wages paid by an employer in 2012. (“increase” is measured by subtracting the wages paid in 2011 from the wages paid in 2012.) Credits (as opposed to deductions) reduce taxable income dollar for dollar. The “increase amount” of wages eligible for the credit is capped at \$5 million. His bill would also extend the temporary 100 percent depreciation bonus through 2012. At the end of 2011, the temporary bonus dropped to 50 percent and it will expire at the end of the year. ***But this bill is not what the Senate will vote on this week.*** The “Buffett rule” tax on millionaires is not part of this bill, and there is

expected to be a vote on a stand-alone Buffett rule bill, S. 2230, this week.

## **A SLOW SUMMER**

What else can we expect out of this Congress? The biggest knot they need to undo is the one regarding reauthorization of the surface transportation programs. Postal Service reform is a possibility. After that...some folks think the major tax issues will be dealt with in a lame duck. I think we should be so lucky. On the spending side, some think the ducks will deal with spending issues because sequestration is looming in calendar year 2013. With fiscal year 2013 spending targets already set by the debt ceiling increase law (although the House is trying to push through deeper cuts), the typical year-end appropriations drama is less likely.

A common theme on the Hill is that the economic consequences of not dealing with these tax and spending issues are too big not to resolve this year. (Plus the debt ceiling may have to be increased again this year.) At this point, the average fly-in participant hears the same refrain in almost every meeting: “Oh, the lame duck will act on...(fill in the blank).”

Seems to me that the Democrats, win or lose, have the lame duck leverage. The Bush tax cuts and defense spending are Republican priorities. If the President is re-elected, there is a better chance of grand deal, because then there is a “deal with me now or deal with me next year when the tax cuts have already expired” element.