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# What's In It for My Business? The Stimulus Plan Explained

By Paul Diamond, Web Editor, Vistage International

The U.S. government's new stimulus plan, known formally as the American Recovery and Reinvestment Act of 2009, is lengthy and involved. To save you time in finding out exactly what's in it for you, we are presenting the most relevant credits, deductions and other incentives for business owners. Before taking any actions you should consult your accountant or chief financial officer.

## Small-Business Owners

President Obama's stimulus plan intends to jump-start commerce with these incentives, deductions and credits for small businesses:

### **Loss accounting:**

The IRS currently allows businesses to carry back net operating losses for two years to offset past taxable income. The stimulus plan allows "qualified small businesses" to carry back losses for five years. (A qualified small business is one with gross receipts of less than \$15 million, based on trailing average of annual gross receipts.) This means that your business can re-file prior tax returns and get a refund from the IRS by applying 2008 net operating losses against prior tax payments. Think of it as an interest-free loan from Uncle Sam. For more details see this explanation by the Tax Policy Center.

### **Equipment expense deductions:**

If you buy new equipment, you can offset next year's taxes with it. The 2008 stimulus bill increases the Section 179 expense deduction from \$128,000 to \$250,000 and offers a 50 percent bonus depreciation. The 2009 stimulus bill extends this policy through the end of the year. What does this mean? Purchase a vehicle, machine or computer for your business and you can offset any taxes you might owe in 2009. Some fine print: partial deduction can be taken for purchases between \$250,000 and \$800,000 and a fading deduction up to \$1.05 million.

### **Hiring incentives:**

Businesses that hire unemployed veterans or high-school dropouts can earn up to a \$2,400 per worker credit on their taxes. The existing Work Opportunity Tax Credit lets businesses claim a tax credit of 40 percent of the first \$6,000 of wages paid to certain types of employees who fall into one of nine target groups. Unemployed veterans qualify if they were discharged or released



from active duty during 2008, 2009 or 2010 and received unemployment compensation for more than four weeks during the year before being hired. High school drop-outs or "disconnected youth" are young men and women between the ages of 16 and 25 who have not been regularly employed or attended school in the past six months.

### Capital gains:

Investors who buy and hold stock in a small business for at least five years before selling can exclude 75 percent of the gains from taxes. (The current tax law allows you to exclude 50 percent of your gains.) Here's the catch: the 75 percent exclusion only applies to stock issued after the stimulus bill was enacted and before 2011.

### SBA loans:

The stimulus plan includes several key changes affecting how the Small Business Administration lends money. The SBA can now:

- Refinance existing loans backed by fixed assets.
- Raise its loan guarantee to 90 percent, encouraging banks to extend more capital to small businesses. This means you may qualify for a larger loan than previously.
- Offer deferred-payment loans of up to \$35,000 to small businesses that need money to make payments on an existing, qualifying loan for up to six months. Repayment is required 12 months after the loan is fully disbursed.

"SBA lending, including 504 financing, will be a significant and integral part of the American small business recovery effort," says Vistage member Kurt Chilcott, CEO of CDC Small Business Finance. "It's going to be easier and less expensive for small businesses to get loans, grow their businesses and restore jobs and create new jobs." Chilcott's company provides SBA loans to California, Arizona and Nevada businesses.

### Frequently asked questions about SBA loans

#### *How do I apply for an SBA loan?*

You can apply for an SBA loan at any participating bank or commercial lender. The SBA does not lend money directly. SBA loans can be obtained through most banks, and they typically require the borrower to come up with 20-30 percent of the loan value. Non-profit Certified Development Companies (CDCs) also make SBA loans to small businesses.

#### *How much do I need to put down on an SBA loan?*

Those starting or buying a business typically need to come up with a down payment of 10 to 30 percent, depending on the loan.

#### *What are the different types of SBA loans?*

**7(a) guaranteed loans:** Loans made through this program range from \$25,000 to \$2 million with maturities ranging from 5 to 25 years. The stimulus bill included a provision that allows the SBA to raise its loan guarantee to as much as 90 percent. This increase guarantee means you may qualify for a larger loan than previously. It also means that you may be able to refinance an existing higher interest loan.

**504 Certified Development Company loans:** Loans with long-term, fixed-rate financing are available to businesses purchasing a building, land and large equipment. These loans, done in partnership with your bank, can go as high as \$10 million and require only 10 percent down. The interest rate is consistently below market. The stimulus bill provisions call for eliminating several borrower fees normally associated with this loan and may allow refinancing with the 504. The 504 loan is provided by Certified Development Companies, which are nonprofit organizations.



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**SBA Express loans:** These loans of up to \$350,000 are backed by an SBA guarantee of 50 percent and can be approved within 24 hours.

**Business stabilization loans:** Created by the stimulus plan, this deferred-payment loan of up to \$35,000 is available to small businesses that need money to make payments on an existing, qualifying loan for up to six months. Repayment is required 12 months after the loan is fully disbursed. This loan can help a small business pay back other creditors, buy inventory, or get through a tight period.

**Patriot Express loans:** Loans of up to \$500,000 are available to veteran and members of the military community.

**Micro-loan program:** Small-scale financing of \$500 to \$35,000 are bundled with technical assistance.

**Export working capital loans:** Loans of up to \$1.5 million to finance export sales.

**Disaster loans:** Those in declared disaster areas are eligible for specific loans, the terms of which vary depending on the disaster and the region.

*Can I refinance an existing bank loan with an SBA loan?*

Yes. The stimulus plan gives the SBA the power to refinance existing loans (both SBA and non-SBA loans) for fixed assets. For more information on refinancing your existing SBA loan, contact your bank or lender.

*What are the interest rates on SBA loans?*

SBA sets a maximum interest rate on its guaranteed loans. Those rates are:

- Prime plus 2.25% for loans under 7 years
- Prime plus 2.75% for loans over 7 years

*The SBA-504 rate for March (thru April 6) is 5.6% for a 20-year loan.*

Additionally, lenders have the option of charging an additional 1 percent on loans under \$50,000 and 2 percent on loans under \$25,000. Also, the SBA can charge a fee from .25 percent to 3.5 percent, depending on the size of the loan.

*Can the SBA help me obtain a bond?*

The SBA helps companies obtain bid, performance and payment bonds. The stimulus bill recently raised the maximum contract amount that can be covered by an SBA-guaranteed surety bond from \$2 million to \$5 million, and, under certain circumstances, up to \$10 million. Many small businesses need surety bonds in order to bid on and obtain federal and municipal contracts. SBA guarantees surety bonds to small businesses that private surety companies often are not able to extend.

*Is there a deadline to apply for these loans?*

No.

*I have more questions. How can I contact the SBA office in my area?*

If your bank or lender can't answer your questions, you can contact your local SBA office here [<http://www.sba.gov/localresources/index.html>] or call the SBA "answer desk" at 800-827-5722.

**S-Corp holding period:**

The stimulus plan temporarily shortens the holding period of assets subject to the built-in gains (BIG) tax from 10 years to 7 years. BIG tax requires a company to pay taxes on unrecognized appreciation (the net of unrecognized built-in gains and built-in losses) that existed at the time an S election is made. The BIG tax applies to C corporations which have made an S election, but not to newly formed S corps.



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### **Extension of monetization of accumulated AMT and R&D credits:**

The new law extends a provision contained in the Foreclosure Prevention Act of 2008 that allows Alternative Minimum Tax (AMT) and loss taxpayers in 2009 to receive 20 percent of the value of their old AMT or research and development credits if such taxpayers invest in assets that qualify for bonus depreciation. Ask your accountant for more information if you think you qualify.

### **Delayed recognition of certain cancellation of debt income:**

Businesses that buy their own debt at a discount can now cancel their debt income over a 10-year period. More precisely, the new bill allows cancellation of debt income (CODI) to be recognized over ten years (if companies defer tax on CODI for the first four to five years and recognize this income over the following five tax years) for business debt repurchased in 2009 or 2010.

The stimulus plan's handouts and tax breaks can come at a cost. The bill imposes new safeguards against fraud, waste and abuse. Employers that receive certain funds from the bill will have to comply with new "whistleblower" laws. The stimulus bill "includes whistleblower protections that are deeper and different from those that are familiar to many employers," says Allen Roberts of the law firm Epstein Becker & Green, P.C.. For more information on these provisions contact your legal team.

## Laid-Off Workers

For those who have been laid off, the stimulus plan will expand and extend unemployment benefits.

### **More unemployment compensation, less taxes on it:**

Weekly unemployment checks will increase by \$25. Unemployment recipients will not have to pay income taxes next year on the first \$2,400 of unemployment benefits received in 2009.

### **Subsidized COBRA:**

The federal government will pay up to 65 percent of the COBRA health-insurance premiums for nine months. People who have lost their jobs after Sept. 1, 2008 will qualify for this aid. Those who initially refused COBRA have 60 days to accept it under the new terms. The benefit isn't available for people who earn more than \$125,000 in 2009.

*Note to business owners: Businesses must provide notice about the COBRA premium subsidy to individuals who have a COBRA qualifying event during the period from September 1, 2008 through December 31, 2009. Individuals involuntarily terminated from September 1, 2008 through February 16, 2009 who did not elect COBRA when it was first offered or who did elect COBRA, but are no longer enrolled (for example because they were unable to continue paying the premium) now have a new election opportunity. For more information on how to notify employees see Department of Labor Fact Sheet: COBRA Premium Reduction or see this article "The COBRA premium subsidy--What Employers and Plan Administrators Need to Know."*



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## Tax Breaks for Middle-Income Earners

The stimulus package offers some incentives to encourage middle income earners (under \$95,000 in adjusted gross income) to put more of their income back into the marketplace.

### “Making Work Pay” tax credit:

This credit reduces the tax withholdings in your paycheck. Your paycheck will contain roughly an extra \$30 per month or \$400 per year (\$800 for families). The credit phases out between \$150,000 and \$190,000 in adjusted gross income for married couples filing jointly and between \$75,000 and \$95,000 for single filers.

### One-time cash payment:

If you receive Social Security or Supplemental Security Income or are a disabled veteran, you may be eligible for a one-time \$250 payment. This benefit counts against the “Making Work Pay” credit for those who are eligible and currently working.

### Alternative-minimum tax exemption:

The alternative-minimum tax with its elevated rates and limited deductions will no longer be applied to anyone making less than \$46,700 (adjusted gross income) or couples making less than \$70,950.

### Expanded Earned Income Tax Credit:

The tax credit for families with three or more children will increase as will the “marriage penalty” relief for 2009 and 2010.

### Expanded Child Tax Credit:

For 2009 and 2010 the government has changed eligibility requirements for the refundable child tax credit by lowering the threshold to \$3,000 (from \$8,500 in 2008).

## Car Buyers

Car buyers have a small write-off to look forward to when purchasing traditional gasoline-engine cars, while buyers of plug-in hybrids can get a significant perk.

### Above-the-line deduction for auto purchase:

If you spend up to \$49,500 for a new car, light truck or motorcycle this year, you can deduct a portion of your state and local sales taxes for the deal. The deduction is phased out for individuals earning more than \$125,000 and couples earning more than \$250,000. You don't have to itemize to claim the deduction. The downside is that it's not a huge savings—a \$25,000 vehicle purchase might get you roughly a \$500 deduction if you make less than \$80,000. Additionally, the deduction can't be taken by those who deduct state and local sales taxes in lieu of state and local income taxes.

### Plug-in electric credit:

A \$2,500 tax credit is available for those purchasing plug-in electric cars which are not yet available for sale. Additionally, buyers can get up to another \$5,000 in credits depending on battery life and how many plug-ins are sold in the U.S. Toyota and GM plan to offer plug-in electric cars in the first quarter of 2010.



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## Homeowners And Buyers

The stimulus package offers incentives to buy a first house or make your existing home more energy efficient.

### **Credit for first-time home buyers:**

A tax credit of up to \$8,000 is available for first-time home buyers purchasing homes on or after January 1, 2009 and before December 1, 2009. The credit is subject to phase-out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 for joint filers).

### **Tax credits for home energy-efficient improvements:**

For those who want to upgrade their homes, many types of energy-efficient products could qualify for a 30 percent tax credit, up to \$1,500 per project. The credit covers windows, doors, roofs, insulation, heating and air-conditioning systems and hot-water heaters, to name a few. See a list of those credits here.

### **Credits to those who use solar, wind or geothermal:**

The dollar limitations on certain alternative energy credits (for qualified small-wind energy costs, solar electric costs and geothermal heat pump costs) have been removed. A credit cap of \$4,000 is placed on wind costs and \$2,000 on solar and geothermal.

## College Students

Parents paying for college tuition can receive a tax credit and new deductions.

### **American opportunity tax credit:**

A \$2,500 higher-education tax credit is available for those paying for the first four years of college. The credit is subject to a phase-out for taxpayers with adjusted growth income in excess of \$80,000 (\$160,000 for joint filers). The new credit temporarily replaces the Hope Credit which offered \$1,800 for two years.

### **Pell grant:**

The Pell Grant for low-income students will rise by \$500, to \$5,350 this year and \$5,550 next year.

### **Computers as an education expense:**

Computers and computer technology can qualify as education expenses in Section 529 education plans in 2009 and 2010.



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## Why Join Vistage?

### **Sixteen chief executives. Zero blind spots.**

Vistage delivers the vital perspective chief executives need to see the big picture, test ideas, overcome obstacles and seize opportunities. In groups of up to 16 peers, Vistage members engage in candid and challenging discussions under the facilitation of a highly trained Vistage Chair. The Vistage Chief Executive Program includes:

- Monthly, full-day problem-solving meetings with up to 16 chief executives, presidents, or business owners, professionally facilitated by a Vistage Chair
- Monthly, two-hour personal coaching sessions with a seasoned business advisor (the Vistage Chair)
- Up to eight workshops per year led by a Vistage expert resource speaker
- The Vistage Gateway™: Online best practices library; local and regional member events; and access to a global network of 14,500 business leaders.

The Vistage Chief Executive Program offers:

#### **Fresh thinking**

New ideas and perspectives are the fuel for any company's continued growth and innovation. The Vistage Chief Executive Program inspires each leader's best thinking, challenges their assumptions and provides a platform to implement insights with confidence and precision.

#### **Better decision making**

Vistage provides the most effective sounding board for the chief executive's toughest decisions—fellow executives who have met and overcome the same challenges. It's like getting the "trial" without the "error," and it helps members make better decisions when the stakes are highest.

#### **Accountability for success**

Business leaders have precious few people to turn to for seasoned advice and the plain truth. With no agenda except to help one another succeed, Vistage groups and Chairs test assumptions, uncover opportunities and hold each other accountable for taking action.

#### **Improved performance**

In the end, Vistage is about improving members' performance so their companies can perform better. It's about continuous, accelerated, practical learning—more lasting than any one-time workshop, more actionable than any flavor-of-the-day business book—and about turning good intentions into great results.

We selectively seek, by invitation only, CEOs with a strong desire to enhance their leadership and business skills while moving their organizations forward. To attend a Vistage meeting in your area as a guest, contact our Member Development Team at 800.274.2367.