Desperate to Stimulate Small Business

Background

Government policy over the past 10 years has been all about the bigs. Whether intended or not, it acted to promote industry concentration.

- After the 2008 financial crisis, the Dodd-Frank Act led to small and medium size banks merging into larger ones because they couldn't bear the compliance costs.

- The Affordable Care Act led to a concentration in the insurance industry. (Some would argue that there won't be enough of a concentration until there is only one insurer, but that's a discussion for another day.)

- The ACA has also led to mergers of healthcare providers. Hospitals have merged into chains, and physician practices have been bought up by the hospitals.

While all this may promote efficiency among the survivors, it is a disaster for employment. Large employers are all about cost cutting and off-shoring jobs.

Enter The Donald

The message during the campaign may not have been a model of coherence or consistency, but at least there has been discussion about what can be done to increase domestic employment. The Tax Cuts and Jobs Act has a number of changes to the tax code that are clearly friendly to small business. See also our article "Republican Helicopter Money."

- Use of cash basis accounting is being extended to larger businesses.

Under existing law, a business must have average gross receipts less than $5 million during the prior 3 years to qualify for the cash method of accounting. This is being expanded to $15 million under the Senate version of the bill, and to $25 million under the House version.

- Small businesses are not required to use inventory accounting. (House and Senate bills)

Section 471 of the code would be amended to allow small business to treat inventories "as non-incidental material or supplies." In other words, inventory would be expensed when purchased by a cash basis taxpayer.

Inventory accounting, including the application of the Uniform Capitalization Rules, is a tremendous administrative nuisance for small employers.

- The ability of small business purchases of fixed assets has been expanded.

The ability of business to expense purchase of property used in a trade or business started with the Economic Recovery Act of 1981. The annual limit was a modest $5,000. Since then, asset expensing to promote business spending has become a part of the toolkit of stimulus-meisters.

Under existing law there is a $500,000 expensing limit. If acquisitions of property otherwise qualifying for expensing exceed $2,000,000 in a tax year, the excess reduces the expensing limit dollar-for-dollar. (If a business has $2.5 million in Section 179 property acquisitions, the amount that can be expensed is reduced to zero.)

Both the House and Senate versions of the Tax Cuts and Jobs Act greatly expand the expensing limits.

	Expensing Limit	Phaseout Point
House Bill	$5,000,000	$20,000,000
Senate Bill	$1,000,000	$2,500,000

Originally expensing was limited to personal property. As lobbyists whined for tax benefits the definition of qualifying property was expanded to include certain leasehold property, restaurant property, and retail property.

The House version of the bill broadens the definition of qualifying property further to include "any of the following improvements to non-residential real property . . . . ."

Roofs,
HVAC property,
Fire protection and alarm systems, and
Security systems

The common theme here is giving small business the ability to front-end tax deductions and manage their level of taxable income down by investing. Whether this produces employment gains or is simply an acceleration of deductions remains to be seen.

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