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Small businesses ask for relief

'We'll get by with a little help from the law,' they tell Congress

By DON LYLE
News Staff

Small businesses have been helped by recent national and state legislation, but the biggest squeeze from high interest rates looms in the next 12 months, according to executives involved in small business. They recommend still more legislation for relief.

During a meeting last week, Les Berkowitz, chairman of the small business council of the Denver Chamber of Commerce, said the country has more than 14 million small businesses.

Some 80 percent of the businesses in Colorado employ less than 20 people, and 60 percent of the new jobs are created by companies with fewer than 20 employees.

At the same time, those small businesses have contributed more than half of the new products that have entered the market since 1950, he says.

And, the still-pending Omnibus Innovation Act, if passed, would guarantee small businesses 1 to 3 percent of the research and development grant funds of any federal agency with an R&D budget of $450,000 or more.

State Treasurer Roy Romer, at the same meeting, however, called the Economic Recovery Tax Act "a rip off" for small businesses.

Small business, he explains, is labor intensive, while larger companies tend to be capital intensive. That means the bulk of the tax benefits from depreciation of buildings and equipment and investments goes to the large companies.

A segment of that act, which allows companies to sell their tax credits, allowed General Electric to pay no taxes last year, he says, and to get a $150 million refund.

Romer, who also is chairman of the Governor's Small Business Council, claims that tax advantage imposes an unfair burden on individuals and small businesses who have to make up that loss to government coffers.

He estimated the industry-wide impact at $25 billion to $50 billion.

Colorado Senate Bill 1240, he continues, is a step forward. It amends the power of the Colorado Housing Finance Authority, allowing it to pool small-business loans in the state into packages large enough to sell to big institutional investors in the East.

Money leaves Colorado in small packages to go into money market mutual funds, he explains, but it comes back to the state as large buildings in downtown Denver and not in the $200,000 packages that small businesses need.

The problems still facing small businesses prompted Duane Pearsall and nine other Coloradans to join small-business representatives from across the country who traveled to Washington to meet with members of Congress, outlining their problems and recommending solutions.

Pearsall, a former winner of the national small-businessman of the year award as chief executive of Statístrol Inc., in Lakewood, is chairman of Mountain States Association, an advocate group for small businesses in eight states, including Colorado.

The group had four priorities in its two day visit with members of Congress earlier this month, he says. The first had to do with increasing employment while helping small businesses with labor costs, reducing the national debt and relaxing pressure on high interest rates.

For every 1 percent reduction in the national unemployment rate, he says, the U.S. Treasury gets about $25 billion in additional taxes.

Advocates for small business recommended a general tax credit for supplying jobs under which the government would allow a small business to deduct from taxes half an employee's salary up to a maximum of $6,000.

If the nation had only 10 million small businesses instead of 14 million, he adds, employment would increase by a million people if only 10 percent of those small businesses hired one new person because of the deduction.

The cost to the government would be $3 billion, and the Treasury would increase its revenues by $22 billion because of the taxes the new employees would pay.

Another proposal to Congress was a small-business participating debenture. That would be an investor loan to a small business. In return for the risk of the venture, the investor would get the potential for a high yield and an ordinary write-off of losses, and any interest paid would be treated by the government as a capital gain instead of an ordinary gain. The maximum tax on capital gains is 20 percent, while tax on ordinary gains could be 50 percent.

Another proposal, if approved by Congress, would allow small business loans to be pooled and sold as taxfree, industrial revenue bonds at low interest rates.

Pearsall continues.

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State Treasurer Roy Romer

Congressmen to support a proposal requiring government agencies to set aside a portion of their research and development funds for small business.

And, they pushed for small-business representation on the Federal Reserve Board of Governors and other agencies.

Pearsall says some 600,000 new business were started last year, compared with some 50,000 new businesses in 1946.

But, he adds, his own guess is that some 650,000 businesses either declared bankruptcy or just folded.

Romer adds, "A lot of small businesses have been just getting by, bridging over (the poor economy and high interest rates). But the bridge is too short. Washouts are going to occur in the next 12 months."