

THE SMALL BUSINESS JOBS ACT

What's in it for businesses ... and participants in 401(k), 403(b) and 457(b) plans.

Provided by Renita M. Owens, CPA, PFS

On September 27, President Obama signed H.R. 5297 - the long-debated Small Business Jobs Act of 2010 - into law.¹ In the wake of its passage, there are some interesting questions to consider. Will the new law's tax breaks and credit offerings really prompt employers to step up hiring? And who noticed the interesting provision for anyone with a 401(k), 403(b) or 457(b) retirement account?

Let's take a closer look.

A \$30 billion fund to encourage loans. To some this is a boon, to others just a discouraging "mini-TARP". The SBJA permits the U.S. Treasury to lend \$30 billion to community banks - and those banks are the drivers behind small business loans. These capital injections would come with financial incentives: while the banks would have to make recurring dividend payments to the Treasury as a condition of the loans, the payments could be lessened by 1% for each 2.5% expansion in small business lending the bank demonstrates. (Incidentally, any bank that has accepted TARP money from the Treasury could opt to convert to this program.)²

So how will this fund be funded? Over time, a chunk of the money will come from federal taxes resulting from Roth plan contributions. The Small Business Jobs Act contains a provision allowing more individual investors to go Roth (see below). That could mean more tax revenue for the Treasury. Other money will come as result of diminished tax breaks, stiffer tax penalties and more stringent tax reporting requirements in the years ahead.^{3,4}

\$12 billion in projected tax breaks. The SBJA offers small business owners and small business investors some nice chances for federal tax savings. It allows business owners to write off 50% of the cost of new equipment immediately, and raises the deduction for startup expenses all the way to \$10,000. It exempts long-term investors in certain small businesses from capital gains taxes. Owners of retail shops and restaurants may even be able to take deductions for remodeling.^{4,5}

Small business owners will also get a chance to deduct health insurance costs (for them and for their families) from self-employment tax for the 2010 tax year.⁵

Two tax relief items did fall by the wayside as the SBJA went over its toughest hurdle in the Senate. Republicans wanted to make the R&D tax credit for small firms permanent, and they wanted to ease 1099 reporting requirements that could prove grueling for small businesses starting in 2012. They achieved neither goal.^{4,6}

A news flash for 401(k), 403(b) & 457(b) plan participants. With passage of the new law, participants in 457(b) plans will be able to treat their elective deferrals as Roth plan contributions starting in 2011. Additionally, the Act permits those with 401(k), 403(b) and 457(b) accounts to roll over their pretax account balances into Roth

accounts. Citing the summary of H.R. 5297, *Pensions and Investments* - the international newspaper of money management - notes that a 401(k), 403(b) and 457(b) plan participant would have the power to defer the taxes on the Roth conversion and split them over 2011 and 2012 if the rollover is made in 2010.^{7,8}

Is this really going to help small businesses? Conservatives don't think so. In their view, all the Act does is offer businesses debt. Customers and cash are what these companies need, and they seldom arrive through government intervention. Liberals contend that the \$30 billion loan fund and \$12 billion in projected tax breaks will offer small businesses a lifeline at a very tough time, stimulate productivity and innovation, and ultimately lessen joblessness and help turn the economy around.

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Citations

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