

Obama's Impact on Small Business

Three experts answer questions on income taxes, depreciation deductions, labor policy, unions, medical leaves, and health-care reform

By [Karen E. Klein](#)

The election is finally over, and as the dust settles, it's time for some accounting. How will small businesses fare under an Obama administration? Smart Answers columnist Karen E. Klein asked three experts—Bill Rys, tax counsel for advocacy group National Federation of Independent Business; Jay Sumner, labor law attorney with the law firm of [Littler Mendelson](#); and John Arensmeyer, executive director of advocacy group Small Business Majority—to comment about issues important to entrepreneurs, including taxes, labor policy, and health care. Edited excerpts of their conversations follow.

Toward the end of the campaign, Obama put forward a [small business emergency rescue plan](#). While it's not set in stone, the principles indicate some of President Obama's small business policy priorities. What are some of the highlights?

Bill Rys: His tax plan keeps the 2001 tax rates in place and extends them [rather than extending the Bush Administration's tax cuts of 2003]. It also extends business tax incentives based on tax code section 179—that are scheduled to expire in 2008—through 2009.

In his stump speech, Obama talked a lot about cutting taxes on individuals earning less than \$250,000 a year. How does that threshold impact small business owners?

Rys: Well, 75% of small business owners have organized their companies as pass-through entities, meaning that they pay taxes at the individual level. So we did a survey at the end of 2007 that asked small business owners how much they earn from their businesses, and about 10% reported that they make more than \$250,000. When we broke that down by how many employees they had, about 30% of those with 20 to 250 employees said they make more than \$250,000 in taxable income. What the survey concluded is that regardless of the tax rate, small business owners draw a considerable amount of income from their businesses, and if a higher tax is placed on that income, they will have to make tough decisions about where to cut business investments.

Will it be helpful to extend the Section 179 tax incentives, which allow businesses to take an immediate deduction for the full value of qualified purchases on things like trucks, copiers, and manufacturing equipment, as Obama's plan advocates?

Rys: Let's get some background: The current limit on those deductions is \$125,000, but last year, as part of the economic stimulus bill, they increased it to \$250,000 for

purchases made in 2008. That is supposed to expire at the end of 2008, but Obama's proposing to extend it through 2009. In 2003, when the limit was \$25,000 and it was increased to \$100,000, IRS data showed that the amount of depreciation deductions taken in that year represented the largest increase ever. So a lot of businesses did make investments in equipment during that year, based on IRS stats, and anytime you increase those limits, it's certainly helpful for small businesses in particular.

My concern now is whether small businesses really have the money to make those kinds of investments with their sales decreasing and many entrepreneurs reluctant to make expansions. I'd recommend locking in the higher dollar amount past 2010, and then, as we start to see the economy recover, it would send a nice signal to small business owners that as things pick up for them, they'll have a tax incentive they can rely on to do some investment at that time.

What other tax changes do you hope the new administration will put in place that will help small companies?

Rys: In general, when it comes to small business owners and taxes, we try to stress the importance of simplicity. The cost of tax compliance on small business owners can be especially onerous, because they don't have in-house tax departments like big businesses do.

How Entrepreneurs Can Profit with Obama

Smart business owners know that taxes will come down one day. But in the meantime, at least in the next few years, we know it's time to spend to invest, keep taxes low, and prepare our businesses for the next decade. I think we've all learned that investing in the stock market isn't the greatest idea any more. Maybe the guy's right, and we should plow our money back into something we can control.

Take a careful look at employees.

Obama's a big supporter of unions and a worker's freedom to unionize. He's going to change some of Bush's classification rules which will enable more people, formerly classified as supervisors, to become protected by federal labor laws. He's going to be on the side of striking workers. He's going to step up protection of employees who face workplace discrimination and encourage flexible work schedules. He's going to raise the minimum wage. And the Family & Medical Leave Act? He's going to expand that, too, to affect businesses from those now employing 50 or more to those that employ 25 or more. Oh...and something's going to happen with health care. I don't know what. But guess who's going to wind up paying? It's going to be good times for workers. Not such great times for employers.

Smart business owners will always need good people. Valuable, hard-working employees working at good small businesses will have job security. But if the costs of employment are going to increase, then we're going to do everything we can to minimize the number of people we employ. Look for a big push for outsourcing. Look for a new rise in subcontractors. Watch us use the remote technology available today and hire people around the country to do those tasks that we formerly had employees do. Watch us be very, very careful about hiring people over the next few years. The incentives for employing people have shrunk. Our motivation to find ways around these rules will be strong.

Have a few drinks with our estate attorney.

Estate taxes will be higher than ever. Where there was once a hope of lowering, or even eliminating estate taxes, an Obama Presidency means death for that idea (sorry, couldn't resist). Obama's estate tax will be 45% of assets over \$3.5 million.

Smart business owners will immediately be seeking out their attorneys and learning the nuances of estate and trust laws. Christmas will start early. Gifts will need to be made, and fast. The transfer of assets to children, grandchildren, and significant others is going to be accelerated. The rest of us will just make sure not to die in the next few years.

So, let's face reality. Smart business owners, with a little forward thinking, will prosper during the Obama Presidency. So bring it, baby...bring on the change!

Gene Marks, CPA, is the owner of the Marks Group, which sells customer relationship, service, and financial management tools to small and midsize businesses. Marks is the author of four best-selling small business books and writes the popular "Penny Pincher's Almanac" syndicated column. He frequently speaks to business groups on penny-pinching topics. More penny-pinching advice from Marks can be found at www.quickerbetterwiser.com.