



A Rural Microbusiness Tax Credit

Helping Rural Main Street Businesses Prosper

H.R. 2858 – Introduced by Representatives Ron Kind (D-WI) and Wally Herger (R-CA)

The *Rural Microbusiness Investment Credit Act of 2011* would help new enterprises start and existing enterprises grow by providing a 35 percent tax credit on up to about \$30,000 of new investment. Owner-operated businesses with up to five employees and \$1 million of revenue would be eligible if located in rural areas with significant population loss, low average incomes, high poverty or high unemployment. Beginning farmers and ranchers would also be eligible.

Three things about the bill make it more useful than traditional investment credits for many small businesses.

- 1) The credit could be carried back to recapture taxes paid in the prior five years. That makes it more valuable to startup businesses and business hurt by the recession, which often don't have the income to owe much in tax.
- 2) The credit replaces depreciation and other deductions with a 35 percent tax credit, which comes directly off taxes owed. That gives the small business in the lowest tax bracket the same incentive to invest as the large corporation in the 35 percent tax bracket.
- 3) The credit applies to a broader set of investments than equipment and plant. It covers increased investment in almost all aspects of the business, such as bigger inventories, new employees and increased advertising.

This credit is exactly what is needed for the rural economy. For many rural areas, microbusiness creates most new jobs. And in hard times, microbusiness is important in all of America. During the 2000-2003 recession, employment grew in microenterprises 9.17 percent while *falling* 1.8 percent in larger firms. Microenterprise led America out of its last recession and can do so again with a little support.

Nevertheless, the small businesses on which much of rural America relies have long received short shrift in economic policy. Most job creation tax incentives are designed for much larger “small” businesses in high tax brackets, corporate America, and high-growth businesses seeking outside investors to inject capital for a stake in the business. This is the first tax credit designed for the microbusinesses that provide the economic backbone of much of rural America.

When the President released his rural policy platform in Iowa in 2008, it included the Rural Microbusiness Investment Credit. It should be included when the President presents his tax proposals to Congress later this year. It would create jobs and genuine economic opportunity for the little guys in rural America. And with bipartisan support, rare in today's Washington, Congress could actually pass it rather than just argue about it.

Microenterprise is Essential in Leading the Nation out of Recession

Microenterprise is always a critical source of employment in most rural areas, but it is especially critical during recession, such as we are now suffering. During our last recession, from year 2000 to 2003, employment grew in microenterprise while growing slowly or falling for larger employers. The 2000-2003 numbers by state include:

- Arkansas** –Employment grew in microenterprise 8% while falling 1.8% in larger firms
 - California** – Employment grew in microenterprise 9.4% while falling 1.2% in larger firms.
 - Colorado** –Employment grew in microenterprise 9.3% while falling 3.5% in larger firms.
 - Connecticut** - Employment grew in microenterprise 4.9% while falling 1.4% in larger firms.
 - Florida** - Employment in microenterprise grew 14.6%, but only 1.9% in larger firms.
 - Idaho** - Employment grew in microenterprise 10.9% but only 1.3% in larger firms.
 - Illinois** –Employment grew in microenterprise 10% while falling 4.7% in larger firms.
 - Iowa** - Employment grew in microenterprise 4.7% while falling 2.5% in larger firms.
 - Kansas** - Employment grew in microenterprise 5.5% while falling 1.8% in larger firms.
 - Kentucky** - Employment grew in microenterprise 6.6% while falling 3.2% in larger firms.
 - Michigan** -Employment grew in microenterprise 6.7% while falling 5.6% in larger firms.
 - Minnesota** -Employment grew in microenterprise 7.8% while falling .9% in larger firms.
 - Mississippi** -Employment grew in microenterprise 8.7% while falling 3.7% in larger firms.
 - Missouri** - Employment grew in microenterprise 8.5% while falling 2.5% in larger firms.
 - Montana** -Employment in microenterprise grew 8.5%, but only 3.3% in larger firms.
 - Nebraska** -Employment in microenterprise grew 4.9%, while falling .7% in larger firms.
 - New Mexico** - Employment grew in microenterprise 18.6% while falling .3% in larger firms.
 - North Carolina** - Employment grew in microenterprise 9.1% while falling 3.1% in larger firms.
 - North Dakota** -Employment in microenterprise grew 3.6% but only 1.8% in larger firms.
 - Ohio** - Employment grew in microenterprise 5% while falling 4% in larger firms.
 - Oregon** - Employment grew in microenterprise 5.4% while falling 2.2% in larger firms.
 - South Dakota** - Employment grew in microenterprise 5.9% while falling .3% in larger firms.
 - Utah** - Employment grew in microenterprise 12.9% while falling 1.1% in larger firms.
 - Washington** -Employment grew in microenterprise 6.3% while falling .9% in larger firms.
 - Wisconsin** –Employment grew in microenterprise 6.7% while falling 1.6% in larger firms.
- USA** –Employment grew in microenterprise 9.17% while falling 1.8% in larger firms.