

## **The Rural Microbusiness Investment Credit**

*Helping Rural Main Street Businesses Prosper*

**H.R. 5990 – Reps. Kind (D-WI) and Herger (R-CA)**

**S. XXXX – Sen. Bennet (D-CO) – bill to be introduced in the Senate this fall**

Microenterprise is always a critical source of employment in most rural areas, but it is especially critical during a recession. During our last recession, between 2000 and 2003, employment grew in microenterprises while growing slowly or falling for larger employers. Nationwide employment grew in microenterprise 9.17% while *falling* 1.8% in larger firms.

Microbusinesses, particularly undercapitalized rural ventures, have always faced significant barriers securing financing from traditional banks and the increasing competition for limited credit is hitting microentrepreneurs particularly hard. As conventional bank lenders pull back on their small businesses lending entrepreneurs are forced to look for alternative sources of financing.

### ***The Rural Microbusiness Investment Credit***

- The *Rural Microbusiness Investment Credit (RMIC)* is designed to generate investment in both startup and expanding rural microbusinesses by providing a federal tax incentive, in the form of a 35 percent tax credit, to entrepreneurs who invest in their businesses. Beginning farmers and ranchers are also eligible.
- The RMIC is a capped credit in that no single individual can secure more than \$10,000 in tax benefits over a lifetime - meaning the RMIC can be used to offset up to \$28,500 in qualified microbusiness expenses.
- A microbusiness owner would be able to carry back the RMIC for five years and use it to offset taxes in those previous years. This is critical for startup businesses, which typically don't pay taxes in the initial year, as well as for businesses in the midst of recession that may not need tax breaks but do need assistance in making critical investments.
- The RMIC is specifically targeted to entrepreneurs who are operating businesses in economically distressed rural areas where access to capital has always been a challenge and is even more difficult with the recent decline in bank lending to small businesses.

## **Rural Microbusiness Investment Credit Q&A**

### ***How would a business owner qualify for the Rural Microbusiness Investment Credit?***

In order to take advantage of the *Rural Microbusiness Investment Credit (RMIC)*, a microentrepreneur must own and operate a business with no more than five employees and the business must be located in a distressed rural area.

The RMIC defines a distressed rural area as any area with a population of 50,000 or less and has lost at least 5 percent of its population over the last 10 years; has lost 10 percent of its population over the last 20 years; has a median family income below 85 percent of the national median family income; has a poverty rate in excess of 12.5 percent; or has experienced unemployment greater than 125% of the national average in the year prior to when the credit is taken.

### ***Has this model been tested?***

In 2005, the State of Nebraska enacted a 20 percent investment tax credit on up to \$50,000 of investment in microenterprise – owner operated businesses with up to five employees. The cumulative credit was capped at \$2 million annually. The credit has provided an effective stimulus with demand outstripping the \$2 million in each year since its creation.

### ***What is the difference between a Small Business and a Microbusiness?***

The Small Business Administration (SBA) generally defines a small business as a business with fewer than 500 employees with average annual receipts of \$7 million or less and a very small business is defined a business with 20 or fewer employees.

For purposes of the proposed *Rural Microbusiness Investment Credit (RMIC)*, microbusiness is defined as an owner operated business with five or fewer employees and annual gross revenues that do not exceed \$1 million.

### ***What would it cost to implement the Rural Microbusiness Investment Credit (RMIC)?***

A cost estimate has been requested but is not yet available.

### ***Have there been any recent news articles or editorials about microbusinesses or this bill?***

Yes

<http://www.nytimes.com/2010/07/29/business/smallbusiness/29sbiz.html?ref=global-home>  
[http://www.billingsgazette.com/news/opinion/guest/article\\_11380036-9c49-11df-b3f3-001cc4c002e0.html](http://www.billingsgazette.com/news/opinion/guest/article_11380036-9c49-11df-b3f3-001cc4c002e0.html)