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Written Testimony by

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before the

House Committee on Small Business

Wednesday, June 22, 2011

Chairman Graves, Ranking Member Velázquez, I appreciate the opportunity to discuss the Administration's efforts to help small businesses expand, invest, and hire.

Our greatest challenge as an Administration and as a country is creating good jobs. In the month the President took office, job losses peaked at 820,000. The recession ultimately claimed nearly nine million jobs.

Our efforts over the past two and a half years have restored economic stability and resulted in 15 straight months of private sector job growth. While we still need to make faster progress, more than two million Americans have gone back to work in the private sector over that period, one million within the last six months alone.

The Administration's small business agenda is a key component of our efforts to accelerate the recovery and increase the pace of job creation. Half of all American workers are employed by companies with fewer than 500 employees, and small businesses create two-thirds of all private sector jobs.

Small business owners, however, face disproportionate challenges in the aftermath of the recession and credit crisis. Small businesses are concentrated in sectors that were especially hard hit by the recession and the bursting of the housing bubble: construction and real estate. More than one-third of all construction workers are employed by firms with less than 20 workers, and an additional third are employed by businesses with fewer than 100 employees. Just over half of those employed in the real estate, rental, and leasing sectors work for businesses with less than 100 workers on their payrolls. More broadly, the rate of job losses was almost twice as high in small businesses as it was in larger firms during the depths of the crisis.

Over the course of the recovery, employment at larger firms has been growing modestly, while small business employment continued to decline into 2010, although at a slower rate since the recovery has taken hold. Recent preliminary data show employment picking up at small firms, though business surveys suggest that small business owners are still very cautious about hiring.

The banking and credit component of the economic crisis was especially damaging for small businesses, which are more dependent on bank loans for financing than are larger firms.

Alternative forms of financing, through household credit via mortgages and credit cards, were also deeply compromised by the financial crisis. Mortgages and other loans account for four times the share of liabilities for non-corporate businesses as they do for corporate businesses. Total lending to non-financial businesses shrank for nine straight quarters starting in the fourth quarter of 2008, before turning slightly positive in the first quarter of 2011; on net, lending has declined by a cumulative $4.2 trillion since Fall 2008. Over the same period, larger businesses were able to raise $3.6 trillion by issuing debt securities.

Small business owners reported very difficult credit conditions from the beginning of the crisis well into 2010. Credit conditions have since eased somewhat, with both small business owners and bank loan officers reporting greater availability of financing for small business, especially in 2011. Recently, more small businesses have reported undertaking capital investments than at any time in the past two years—an early sign of improvement, despite continued caution.

We remain committed to providing small businesses with the support they need to contribute to the recovery and put millions of Americans back to work.

The Obama Administration's Small Business Agenda

Over the past two and a half years, the Obama Administration has designed, refined, and implemented policies and programs to support small businesses. There is no single silver bullet, which is why we have taken a multifaceted approach. That approach includes tax relief, so small businesses can invest and hire; developing new public-private partnerships to help small businesses access the capital they need to expand; providing assistance so small businesses can more easily reach export markets around the world; and placing a priority on working with small businesses through Federal contracts.

Small Business Tax Relief

The Administration is strongly committed to supporting small businesses through targeted tax incentives that provide increased capital and key incentives for small business investment and growth. To date, the Administration has supported 17 direct tax breaks for small businesses. These tax breaks were designed to support job creation and retention, entrepreneurship, investment, and growth.

To encourage investments by small businesses, we have supported legislation that increases the ability of small businesses to immediately deduct the cost of machinery, equipment, and other qualifying property. For 2009, the American Recovery and Reinvestment Act (Recovery Act) increased the amount that a small business could expense from $133,000 to $250,000. The Small Business Jobs Act (Jobs Act) further increased this amount to $500,000 for 2010 and 2011. Although this amount would have fallen to $25,000 in 2012, last December's Tax Relief Act increased the 2012 amount to $125,000.

In addition to these targeted increases in small business expensing, we have also supported more general bonus depreciation measures that allow all businesses, small and large, to immediately write off more of their investments. The Recovery Act authorized 50 percent bonus depreciation for 2009, and the Jobs Act extended 50 percent bonus depreciation through 2010. The Tax Relief Act of 2010 went further, providing for 100 percent bonus depreciation, effectively immediate expensing, for the last quarter of 2010 and through 2011, and provided 50 percent bonus depreciation for 2012.

To promote small business entrepreneurs, we supported increasing the ability of start-up companies to deduct more of their start-up costs. The Jobs Act increased this amount from $5,000 to $10,000 for 2010.

Other tax provisions that the President has signed into law help small businesses with their cash needs. The Recovery Act authorized small businesses to elect to carryback their 2008 tax losses five years instead of the usual two, which allowed small businesses to monetize their tax losses instead of waiting to use them to offset profits in the future. Another Recovery Act provision gave relief to small businesses on estimated tax payments, allowing small businesses to keep needed cash on hand to invest and hire.

The Recovery Act also reduced the built-in gains holding period for subchapter S corporations, allowing some S corporations to dispose of assets and access needed cash, without triggering corporate tax. A provision in the Jobs Act allowed small businesses to carryback their 2010 business credits five years, which let small businesses convert unused tax credits into cash. The Jobs Act also provided a deduction in 2010 for health insurance costs in computing self-employment income, to match the existing deduction for such costs that can be claimed against income taxes—giving small business owners a tax break to conserve cash.

The Administration has also strongly supported tax breaks that encourage investments in small businesses. The Recovery Act increased, from 50 percent to 75 percent, the amount of gain that could be excluded on qualified small business stock. The Jobs Act went further, completely eliminating the tax on gain from qualified small business stock issued after enactment through the end of 2010. The Tax Relief Act extended this 100 percent exclusion for qualified stock issued through 2011.

To encourage job creation, the Hiring Incentives to Restore Employment Act (HIRE Act) provided billions of dollars in tax relief for businesses—both small and large—that hired recently unemployed workers by providing a tax credit up to $1,000 for each eligible employee through 2010 who was retained for more than one year.

We have also supported tax law changes that rationalize the application of tax rules to small businesses. For example, the Jobs Act permanently limited a penalty rule that was disproportionately affecting small businesses.

To improve the tax code and reduce burdens on small businesses, the Jobs Act also permanently simplified the manner in which businesses may claim deductions for cell phones, making it easier for small business owners to receive deductions without burdensome documentation.

The Patient Protection and Affordable Care Act (Affordable Care Act) includes a tax credit that helps small businesses extend coverage to their employees by covering up to 35 percent of healthcare premiums, with the top rate rising to 50 percent by 2014. Not only is this good for workers and their families, but, by extending coverage, these small businesses will also gain an edge on their competitors – by helping recruit top talent, retain successful employees, and increasing the overall productivity of their businesses. In total, the Affordable Care Act invests an estimated $40 billion over the next decade in tax credits that enable small businesses to invest, compete, and hire.

Building on these recent legislative achievements, and recognizing that some of these tax breaks were temporary in nature, the Administration's FY 2012 budget proposes additional, longer-term tax relief for small businesses to encourage sustained growth and investment.

First, the budget baseline assumes that the amount of small business expensing permitted each year is permanently increased to $125,000 per year, instead of allowing it to fall to $25,000 per year as it would under current law. This would provide a continued tax incentive to small businesses to invest in plant and equipment and create jobs, while cutting small business taxes by $44 billion over the next ten years.

Second, the budget proposes to make permanent the elimination of tax on gain from the sale of qualified small business stock. This proposal would make investments in small businesses more attractive, and provide those small businesses with additional capital to put to work creating jobs.

And third, the budget proposes doubling the small employer retirement plan start-up credit. In conjunction with the automatic IRA proposal, the budget proposes to increase the maximum credit for small employers' start-up expenses for establishing a new retirement plan from $500 to $1,000 per year.

Helping Small Businesses Access Capital

Small business access to capital is essential to providing entrepreneurs the financing they need to start a new business and allow small firms to grow and expand. Due to the important role small businesses play in job creation, providing small businesses with appropriate financing mechanisms, whether debt or equity, is critical to reducing unemployment. Our economy's growth depends on creating the right enabling environment for small businesses to start, grow, and thrive.

Finding ways to improve the flow of capital to small businesses across their life cycles, whether it is the equity they need to expand or the working capital loans to manage inventories, is essential. Since taking office, this Administration has used an array of tools to support small business access to capital.

During the financial crisis, the Capital Purchase Program (CPP), the Community Development Capital Initiative (CDCI), Temporary Asset-Backed Securities Loan Fund (TALF), and SBA 7(a) Securities Purchase Program were created to help stabilize the financial system. Some programs provided equity to banks to help ensure they could continue to serve their communities. Others helped support the securitization market for small business loans. Of the 791 banks CPP and CDCI programs invested in, 734 were small banks.

While the Bush Administration used $234 billion of its TARP authority to invest in banks and thrifts, with $165 billion alone invested in eight of the largest financial institutions, the Obama Administration broadened the reach of the program to invest across more and smaller financial institutions. By doing so, we helped stabilize financial institutions that provide critical access to credit in countless cities, rural areas, and communities across the country. Today, taxpayers have recovered more than 100 percent of the approximately $245 billion in total funds disbursed for TARP investments in banks (inclusive of dividends, interest and other income).

But we knew capital infusion at banks and secondary market supports alone would not be enough. So we temporarily increased loan guarantees and decreased fees at the Small Business Administration's 7(a) and 504 loan guarantee programs in both the Recovery Act and the Jobs Act, which supported $42 billion in lending to small businesses. The Jobs Act also permanently increased SBA loan limits, which supported over $2.6 billion in loans that otherwise would not have been awarded within the first three months of the increase.

While TARP programs helped stabilize banks, the reach of the program was limited by the stigma that became associated with it. We continued to look for tools that could help small banks, since small businesses are overwhelmingly reliant on banks for access to capital. So we worked with Congress to pass the Jobs Act and create two key Treasury programs – the State Small Business Credit Initiative (SSBCI) and the Small Business Lending Fund (SBLF) – designed to increase lending to small businesses around the country. Congress designed these programs as public-private partnerships that leverage the resources of the government with the local knowledge of the community banks and state programs they are designed to support.

As a result of the recession and ensuing state budget shortfalls, many innovative and effective small business programs at the state level have been scaled back, which, in turn, has posed further challenges to small businesses seeking new capital. The State Small Business Credit Initiative allocates $1.5 billion to new and existing state programs that support lending to small businesses and small manufacturers, including capital access, collateral support, loan guarantee and state-run venture capital programs. These funds are expected to leverage up to $15 billion in small business lending—ten times the amount of program funds.

Forty eight states, the District of Columbia, and all five territories have notified Treasury that they intend to apply to participate in the SSBCI. We have already received 27 applications from states requesting funds that could collectively leverage over $8.8 billion in small business lending. Of the $1.5 billion in SSBCI funds available, Treasury has already approved $436 million in allocations to ten states. Approved state programs in California ($169 million in allocated SSBCI funds) and North Carolina ($46 million) have already began using SSBCI funding to increase lending to small businesses in those states, while other states have begun establishing pipelines of loans now that funds are available. Missouri's ($27 million) state run venture capital fund, for example, has already received applications from small businesses seeking more than $60 million in new investments from the program, exceeding initial forecasts for participation in the fund.

Treasury's Small Business Lending Fund, established alongside the State Small Business Credit Initiative, promotes lending to small businesses among community banks with assets of less than $10 billion. The program provides capital to participating banks through Treasury purchases of preferred stock or debt instruments from each bank. Since banks leverage their capital, the SBLF could help increase lending to small businesses in an amount that is multiples of the total capital provided to participating banks, helping small businesses in their communities to expand and create new jobs.

The dividend or interest rate banks pay to Treasury on SBLF funding also helps incent them to lend to qualified small businesses in need of financing. Under the Jobs Act, the rate will be reduced as a bank increases its small business lending. The initial rate will be, at most, 5 percent, but if a bank's small business lending increases by 10 percent or more, then the rate falls as low as 1 percent. Banks that increase their lending by less than 10 percent can pay rates between 2 percent and 4 percent. If a bank's lending does not increase in the first two years, however, the rate will increase to 7 percent, and after 4.5 years total, the rate will increase to 9 percent (if the bank has not already repaid the SBLF funding). The Jobs Act therefore establishes a clear metric for measuring changes in lending after financial institutions begin participating in SBLF, and helps ensure the program's benefits only go to banks that use capital to extend additional credit to small businesses.

To date, SBLF has received 869 applications and total requests for $11.6 billion in funding. We have begun notifying banks that have been approved for the program, and expect to begin providing capital very soon.

Three-hundred million dollars of SBLF funding is designated for investments into non-profit loan funds that the Treasury Department has certified as Community Development Financial Institutions (CDFIs), which deliver products and services to communities not adequately served by the mainstream financial services sector. These CDFIs will receive equity-like investments; therefore we anticipate that they will further leverage Treasury's investment by raising private debt capital against Treasury's equity-like capital. The investments will have an annual dividend payment of 2 percent in each of the first eight years of the investment, and 9 percent in each of years 9 and 10, assuming the CDFI does not repay the investment before then. The favorable rates and terms of this investment will help ensure that CDFIs participating in the program have the capital available for investments in small businesses in the communities and neighborhoods they serve.

CDFIs play a critical role in providing financial products and services to some of the most distressed communities in the country. CDFIs engage in a wide variety of activities, including providing microloans to entrepreneurs, mezzanine debt to growing small businesses, and financing to develop community facilities like charter schools and health clinics.

The CDFI Fund[1] is undertaking several initiatives to support small businesses, including launching a new capacity building initiative that will expand technical assistance and training opportunities for CDFIs across the country so that they may better engage in small business lending. It also has worked with the SBA to expand their 7(a) loan program to CDFIs with experience lending to small businesses. In February, the SBA launched the Community Advantage Program permitting CDFIs and non-profit lenders to apply for authority to issue government-guaranteed 7(a) loans of up to $250,000. These smaller dollar loans will help support small business formation and growth in underserved communities.

The CDFI Fund also administers the New Markets Tax Credit (NMTC) Program. To date, the CDFI Fund has allocated tax credit authority that would support $29.5 billion of private sector investments into businesses and real estate projects in some of the Nation's most distressed communities. Over $21 billion in NMTC funds have already been invested in low-income communities, with an estimated one third of those dollars invested in businesses and two thirds invested in real estate projects.

This month, the IRS proposed significant and important regulatory reforms to the NMTC that will help more operating businesses take advantage of the credit. The proposed changes grew out of a roundtable I held in Durham, North Carolina last year to find ways to improve the NMTC. The reforms IRS has proposed would help drive additional investment to operating businesses to bring more balance to the investments benefiting from the program.

Maximizing Small Business Contracting Opportunities

The Administration has refocused efforts to increase contracting opportunities for small businesses, creating new jobs and helping to drive the economy forward. Three decades ago, Congress set a 23 percent goal for the portion of annual federal contracting dollars for small businesses, along with subgoals for small businesses owned by women, socially or economically disadvantaged individuals, service-disabled veterans, and small businesses located in Historically Underutilized Business (HUB) zones. Since 2006, the Federal government has missed its annual small business contracting goal and most of the subgoals.

In April 2010, the President created an Interagency Task Force on Federal Contracting Opportunities for Small Businesses to help ensure contracting opportunities between the Federal government and small businesses are maximized. In September, the Task Force laid out three core objectives to help close the gap and reach our goals: strengthening and updating policies that help provide contracting opportunities, and create new ones where they are lacking; increasing the knowledge base and efficiency level of the procurement workforce and providing appropriate incentives and accountability for agencies to meet small business goals; and easier access to procurement information and improving accuracy of procurement data. The Task

[1] The CDFI Fund was created for the purpose of promoting economic revitalization and community development through investment in and assistance to community development financial institutions.

Force made a variety of common-sense recommendations to meet these objectives that the SBA is working to implement.

We have made progress. Over the last two years, the Federal government has bought nearly $200 billion worth of goods and services from small businesses. Last year, we awarded higher dollar amounts for small businesses overall—as well as for women, veterans, and other small business subgroups for which we have annual goals. And in the Recovery Act, nearly a third of all Federal contracting dollars went to small businesses.

The Dodd Frank Wall Street Reform and Consumer Protection Act (DFA) also highlights our attention on Federal contracting opportunities for small businesses. Section 342 of DFA created Offices of Minority and Women Inclusion (OMWIs) in the Department of the Treasury headquarters and all Federal financial regulatory agencies. The OMWIs will monitor how each agency's policies and regulations affect minority-owned and women-owned businesses, and are required to develop procedures to ensure, to the maximum extent practicable, the fair inclusion of minority-owned and women-owned businesses in all activities of the agency, including procurement and all types of government contracts and subcontracts. The establishment of OMWIs is an important milestone for ensuring fair inclusion and opportunities for small financial firms owned by minorities and women, and for evaluating how financial regulatory policies may affect such small business in the economy.

The Administration will continue its efforts to leverage the creativity, innovation, and expertise of small businesses through expanding opportunities for them to benefit from Federal contracts.

Increasing Exports from Small Businesses

In January 2010, the President announced the National Export Initiative (NEI) to help double U.S. exports over five years. The NEI places a priority on supporting small businesses, which face unique challenges ranging from insufficient knowledge of foreign markets to fewer resources to address trade barriers to accessing credit. In the first year of NEI, the U.S. exported $1.83 trillion in goods and services supporting 10.3 million jobs. U.S. exports of goods and services in 2010 increased nearly 17 percent over 2009—the largest year-to-year percentage change in over 20 years. This puts us on pace to achieve President Obama's goal of doubling exports by the end of 2014.

A number of initiatives and programs target small businesses' difficulties accessing the export market. In FY 2010, the Department of Commerce coordinated 36 trade missions to 32 countries with $2 billion in anticipated export success. Small businesses represented four out of five of all trade mission participants from 2008 to 2010. The Department of Commerce's International Buyer Program recruited nearly 13,000 foreign buyers in FY 2010 to visit major U.S. trade shows to meet with U.S. companies, many of which are small businesses that cannot afford to travel overseas, and facilitated approximately $865 million in export successes. Small businesses accounted for 78 percent of the total number of export successes.

Since the start of the NEI, the Department of Commerce's, Trade Agreements Compliance Program has initiated 139 investigations of foreign trade barriers affecting small business, and successfully resolved 48. Through this program, the Department has worked with other U.S. Government agencies to help U.S. businesses overcome trade barriers, including IPR problems, by working to remove the foreign government impediments to U.S. exports.

The Export-Import Bank, an important source of support and knowledge of foreign export markets for small business, generated $5 billion in authorizations for small businesses, up from $3.2 in 2008. In January 2011, as part of NEI and in partnership with the Commerce Department, U.S. Trade Representative, Small Business Administration, U.S. Chamber of Commerce, National Association of Manufacturers, and several lenders, the Export-Import Bank launched a new initiative called Global Access for Small Businesses. The program's goal is to increase the number of small businesses that export goods and services to create jobs, and it aims to reach $9 billion in annual small business export financing, add 5,000 small businesses to its portfolio, and cumulatively approve $30 billion in transactions to small businesses.

The Jobs Act also provides for increased SBA support for small business exports. The law made the Export Express pilot loan program a permanent program, with 90 percent guarantees for loans up to $350,000 and 75 percent for loans up to $500,000; increased the maximum loan sizes for Export Working Capital Program and International Trade Loans to $5 million; and provides $30 million annually for the next two years in competitive grants for states to help small business owners expand their exports.

We are also committed to expeditious approval of the three pending trade agreements with Korea, Colombia and Panama, along with renewal of a strong and robust Trade Adjustment Assistance (TAA) program. The Administration is also actively pursuing a strong trade agenda that will benefit small business and support and create good jobs for American workers, by working with Congress to move forward the pending trade agreements with Korea, Colombia, and Panama, and to renew a strong and robust TAA Program that supports Americans who need training and other services when their jobs are affected by trade.

Encouraging High-Growth Small Businesses

The majority of new jobs are created by start-ups and small businesses capable of high-growth and innovation. According to a recent report by the Kaufman Foundation, half of the companies on the 2009 Fortune 500 list were launched during a recession or bear market, along with nearly half of the firms on the 2008 Inc. list of America's fastest-growing companies. Given their job creation potential and importance to the economy, our efforts have been closely focused on fostering this group of small businesses.

In March, Treasury co-hosted a conference called "Access to Capital: Fostering Growth and Innovation for Small Companies" to examine challenges facing start-ups and high-growth companies, identify barriers to their success, and find new ways for the private sector and public sector to cooperate. The conference convened policymakers, business leaders, entrepreneurs, and academics to discuss new ideas, such as the Administration's proposal to permanently eliminate the capital gains tax on small business stock. These ideas will be important in helping small businesses overcome hurdles, particularly in an environment where credit is constrained, to build a more competitive economy over the long term.

The President's Council on Jobs and Competitiveness, created in January 2011, has brought together leading American business, labor, and academic leaders to offer forward-thinking ideas to quicken the pace of job growth and make sure our economy and our workers can adapt to changing times. At the same time, the President has issued a call to action to the private sector to promote high-growth entrepreneurship. In response, an alliance of entrepreneurs, foundations, corporations, and nonprofits has launched the Startup America Partnership, an independent entity delivering strategic and substantive resources to help entrepreneurs start and scale companies, accelerate technology commercialization, and support entrepreneurial education and mentoring programs.

In the few months since its launch, the Startup America Partnership has already announced more than $400 million in private-sector commitments to provide products, services, mentorship and funding directly to entrepreneurs across the country. Partners in this effort to scale and grow tens of thousands of U.S. startups include American Express, Google, Microsoft, HP, and many others. In early June, the Administration and the Startup America Partnership held a youth entrepreneurship conference in New York City and an urban entrepreneurship summit in New Jersey to educate attendees about the resources, products and services available. The Partnership plans to conduct similar events around the nation.

The Startup America Partnership is also building a network of state and local resources for entrepreneurs, beginning with the launch of Startup Illinois just a few weeks ago. These entrepreneur-led Startup Regions will continue to expand throughout the country, building up the entrepreneurial ecosystems that support startup success and job creation.

Part of Startup America's program takes a fresh look at the regulations to which startups are subject to help streamline requirements and remove unnecessary barriers. This effort is aligned with a government-wide plan to update the regulatory system so it protects the public welfare – while most efficiently promoting economic growth, innovation, competitiveness, and job creation. The President has called for an unprecedented review of regulations across government that has led over two dozen agencies to identify initiatives to reduce burdens, including those on America's small businesses.

When President Obama signed the Small Business Jobs Act last September, he said:

"Government can't guarantee success, but it can knock down barriers to success, like the lack of affordable credit. Government can't create jobs to replace the millions that we lost in the recession, but it can create the conditions for small businesses to hire more people, through steps like tax breaks."

Some of the measures I outlined today are designed to help address the immediate difficulties that the recession placed on the shoulders of small businesses. Others are designed to support the leading role they have long played in our country's economic strength and our entrepreneurial spirit. All of them are complemented by the wide-ranging reforms to the financial system we are currently implementing to help make sure small businesses can reap the benefits from an American economy that is stronger, safer, and more resilient than in the past.

We will continue to examine and explore other opportunities to support small businesses and the recovery more broadly. As we continue fiscal reform negotiations with Congress, our objective will remain a bipartisan consensus on a comprehensive, balanced plan. But that plan must be good for the economy both in the near-term and in the years and decades to come. Any agreement must both preserve the recovery now, while reinforcing the foundations for economic growth in the future.

Let me thank you again for your time and the opportunity to speak with you today. I look forward to working with you in pursuit of our shared goals on behalf of this country's small businesses.