



BUSINESS TAX RELIEF: EXPANDED OPTIONS FOR ENTREPRENEURS IN TOUGH TIMES

President Calvin Coolidge famously said, “The business of America is business.” Congressional leaders agree that tax relief for businesses will help to boost the sagging economy. But the hardest-hit businesses – those operating at a loss this year – will be left out of economic stimulus efforts unless Congress acts.

While retaining business tax relief for companies showing profit this year, the Finance Committee plan will also allow companies that are losing money to apply 2006 and 2007 losses to tax returns from profitable years dating back to 2001 and 2002, and receive any applicable refunds. This extension of the “net operating loss (NOL) carryback” provision from two years to five will give companies in loss positions cash infusions they need to stay afloat.

Businesses in loss positions get multiple benefits from extended NOL carryback.

- NOL refunds increase cash flow, which is extremely important to businesses that are unable to borrow. Much-needed cash infusions can prevent layoffs – stemming job losses nationwide – and can even allow companies to invest in new equipment.
- Firms can access more tax benefits, such as normal depreciation benefits, if they purchase new assets with NOL refund cash. The infusion of cash from an NOL refund also creates the tax liability necessary to be eligible for other tax relief.

NOL carrybacks will be particularly important for the sagging housing sector.

Many of America’s current economic problems started in the housing sector, and financial difficulties are dire for many housing-related firms. Lenders and homebuilders are facing business losses due to the sub-prime mortgage crisis and a decline in housing sales. The residential construction industry alone has lost almost 300,000 jobs total since March 2006 – 28,500 in December 2007.

Quick cash infusions can help housing-related businesses cover payroll costs, preventing further layoffs. With NOL refunds, companies can also avoid selling land and houses at distressed prices simply to shore up their lagging bottom lines.

Additional incentives will keep profitable businesses healthy, and spending.

Like the House, the Senate Finance Committee will consider business tax incentives available to companies making a profit this year: expanded Section 179 expensing of equipment for small businesses and bonus depreciation for business property that is purchased and placed into service by large companies during 2008. Effective dates will be slightly different, but the boost to businesses and the economy will be the same.