

If You Want The Economy To Improve, Incentivize The Growth Of Small Businesses

By Pierre E. Debbas, Esq., Romer Debbas LLP



Since the financial crisis took place, the public has gained a perception that the stability of the economy rests on the health of large financial institutions. While our financial system is dependent on these institutions, what is often forgotten is the role of small businesses as the backbone of the U.S. economy. According to the Small Business Association's (SBA) website: "Small firms accounted for 64% of the net new jobs created between 1993 and 2011 (or 11.8 million of the 18.5 million net new jobs). Since the latest recession, from mid-2009 to 2011, small firms, led by the larger ones in the category (20-499 employees), accounted for 67% of the net new jobs." During the midst of the recession, we saw billions of dollars of taxpayer funds being poured into the large financial institutions in order to prevent these institutions from failing. The purpose behind this was not necessarily to prevent the loss of jobs that would have ensued, but rather to preserve our financial system. The magnitude of this decision cannot be discredited, but the need to decrease unemployment was not addressed as a result of this.

The current generation of professionals with graduate degrees will struggle to ever start a sole proprietorship or small business considering the high level of debt they are starting their lives with given their student loans. Billions of dollars of aid was given to major Wall Street banks, but it is time for the government to ask the question, "How do I help small businesses start up and grow?" As a professional that started a sole proprietorship (real estate law firm) during the peak of the recession and grew to a company (with the addition of great business partners) of 25 plus employees within four years, I can attest to the need of small businesses to have an economic incentive to take risks and have the desire to try to grow in a struggling yet somewhat improving economy. As opposed to having such an incentive, as a principal of a small business I am not only encountering substantial costs in expanding a business, but additional taxes which would have never been a factor should I have remained a sole proprietor and not helped create jobs.

For instance, simply for the privilege of having a "partnership" (LLP) in New York City, our company is confronted with paying a partnership tax of approximately 4% of our annual net

revenue. In expanding a business, you are confronted with taking on additional office space which is the biggest expense of a business after salaries. New York City then imposes a tax of 3.9% of the gross annual rent for every sum spent on rent above \$250,000.00 (which rent can far exceed this figure). This is all after social security benefits paid for each employee, health insurance contributions and any other benefits given to employees. So, in essence, as an employer of a small business, you are penalized for investing in your business and spending more money on rent and penalized for creating a partnership in the most expensive city in the country.

It is time for the government to assist small businesses in growing and incentivize them instead of penalize them for taking the risks of growing. The way to do this is provide tax breaks for small businesses which continue to add jobs. The jobs that are created will result in income which will increase over time and add to far more income tax revenue in comparison to any tax breaks received to the employer. This is not a ploy for the employer to reap a higher financial gain as the increased income an employer receives often results in a higher tax bracket where almost 50% of your earnings are paid in city, state and federal income taxes.

Giving a tax break or incentive to a small business to expand in such a challenging time will help mitigate any risks associated with growing a business. It may even incentivize those who limit themselves to a sole proprietorship for fear of encountering these obstacles in growing a business with such a level of uncertainty looming over our economy. What always made this country great was the opportunity it presented for people. It is time to get back to those basics and support those who are creating opportunities, as that is the only way we will really experience a substantial growth in our economy.

Pierre E. Debbas, Esq.
Romer Debbas, LLP
183 Madison Avenue, Suite 904
New York, NY 10016
Tel: 212-888-3100
PDebbas@romerdebbas.com
www.romerdebbas.com