

## **Why Short-Term Fixes Fall Flat A Call for More Long-Term Thinking from Candidates & Political Leaders**

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Most politicians like to enact tax credits for various business activities, with the goal of creating jobs and stimulating the economy.

For example, the state of Maryland is offering a tax credit of up to \$5,000 for businesses that hire someone who was previously unemployed for a newly created position. There are also the Federal Work Opportunity Tax Credits, worth up to \$1,000 per employee, for hiring an individual in one of 12 designated groups, including qualified veterans, ex-felons, and social security recipients.

As an advisor to many small business owners, I have found that these tax credits are typically more distracting than helpful. My guidance is that business owners need to think about what's the best decision for their business, and not what would have the best tax consequence.

Think about it this way. Say you operate a small business and you're thinking about hiring a new Director of Marketing. You've got a few candidates and you're whittling down the list. Should you value the candidate who will qualify you for a tax credit over the one with a little more industry experience? If tax credits you to hire the wrong person and the business suffers as a result, then does this really help our economy? If you hire people who you cannot afford and end up laying off in 2011, how does that help our economy?

The 2009 Recovery Act temporarily raised the government's guarantee on small business loans from 75 to 90 percent and eliminated borrower fees, but only until the end of 2010. As the New York Times reported, "the money that funds both the guarantee and the eliminated fee has run out five times since the stimulus was enacted in February 2009. Congress quickly renewed them four times, but it took four months for Congress to pass the jobs bill after the provisions lapsed for the last time at the end of May."

Lending will spike in the fourth quarter, but then is likely to sharply decline unless the government extends these benefits again. This is similar to what has happened in residential real estate since the \$8,000 tax credit for new buyers expired on April 30.

The recurring theme here is short-term fixes and "emergency" legislating. Here's an idea - what about creating policies that last for two years or more? How about lowering the tax rates and eliminating most tax credits, so that people make decisions based on business judgment and not short-term tax consequences? How about setting the SBA guarantee level at 80% and lowering fees to reasonable levels for at least 2 years?

Our political leaders need to get back to thinking longer term and stop reaching for short term fixes to our stagnant economy. Let's give business owners the clarity to understand the environment in which they are operating, and less cause to comb through documents or call their advisors to figure out if they qualify for the latest credits that will expire by the time most people even realize they were available in the first place.

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