PIONEER OPPORTUNITY

The Long View: A Public Policy Roadmap for Saving Small Businesses During the COVID-19 Recovery Period

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Acknowledgements:
Mary Connaughton, Pioneer Institute Director of Government Transparency;
Liam Day, Former Pioneer Institute Director of Communications and Partnerships;
Joe Donovan, Counsel at Sullivan & Worcester LLP;
John Friar, Executive Professor of Entrepreneurship at Northeastern University;
Darley Boit, Pioneer Institute Roger Perry Intern;
Max von Schroeter, Pioneer Institute Roger Perry Intern;
Nina Weiss, Pioneer Institute Roger Perry Intern

WHITE PAPER
No. 216 | September 2020

PIONEER INSTITUTE
PUBLIC POLICY RESEARCH

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Pioneer Institute develops and communicates dynamic ideas that advance prosperity and a vibrant civic life in Massachusetts and beyond.

Vision

Success for Pioneer is when the citizens of our state and nation prosper and our society thrives because we enjoy world-class options in education, healthcare, transportation and economic opportunity, and when our government is limited, accountable and transparent.

Values

Pioneer believes that America is at its best when our citizenry is well-educated, committed to liberty, personal responsibility, and free enterprise, and both willing and able to test their beliefs based on facts and the free exchange of ideas.

PIONEER OPPORTUNITY

This paper is a publication of Pioneer Opportunity, which seeks to keep Massachusetts competitive by promoting a healthy business climate, transparent regulation, small business creation in urban areas and sound environmental and development policy. Current initiatives promote market reforms to increase the supply of affordable housing, reduce the cost of doing business, and revitalize urban areas.

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Overview

In April 2020, Pioneer Institute released research that used unemployment claims data in Massachusetts to identify several industries that have been most adversely affected by the COVID-19 pandemic—namely, Accommodation & Food and Retail Trade. This research in turn became the basis of a more extensive white paper, released in late July, that used data through June to explore the economic recovery prospects of these industries, with particular attention given to hotels, restaurants, and brick-and-mortar retailers. The Institute conducted this research as COVID-19 cases surged in the United States, totaling more than 40,000 new cases every day as of early September and prompting several states to backpedal on reopening efforts that at one time gave hope to small business owners facing a dearth of consumer demand.[1] With this rapidly evolving public health and economic situation in mind, it is worth asking: did Accommodation & Food and Retail Trade maintain their mantle of "hardest-hit industries" during the summer?

Once again, we examine weekly new unemployment claims as an indicator of the hardest-hit industries. Massachusetts state data from June and July show that, while Accommodation & Food and Retail Trade are still very much in the top tier, more unemployment claims have been filed in Health Care in recent weeks than in any other industry (see Figure 1). While this fact is somewhat counterintuitive during a public health crisis, there has been substantial evidence that many health practitioners, from dentists to chiropractors, have been unable to maintain revenue streams during COVID-19, and have thus laid off workers.[2] Specifically, personal health care expenditures declined by 63 percent in the 2nd quarter of 2020, prompting widespread layoffs among non-emergency care providers and specialists alike.[3]

Figure 1: List of Industry Sectors by Total Number of New Unemployment Claims in Massachusetts, June–July 2020[4]

	6-Jun	13-Jun	20-Jun	27-Jun	4-Jul	11-Jul	18-Jul	25-Jul	1-Aug	TOTAL
Health Care	5908	3904	3468	3343	3840	2894	2038	2235	1883	**29513**
Retail Trade	4836	2830	2561	2315	1948	1918	1678	1907	1442	**21435**
Hospitality/Food	4901	3153	2785	2347	1948	1773	1522	1674	1256	**21359**
Manufacturing	2075	1742	1693	2066	2010	2098	1530	1073	934	**15221**
Administrative	3501	1994	1817	1509	1403	1334	1124	1329	1054	**15065**
Other Services	2826	1994	1790	1844	1549	1457	1115	1243	969	**14787**
Public Admin	1515	1113	2245	3307	2168	1531	885	813	614	**14191**
Professional/STEM	2476	1811	1661	1665	1683	1487	1193	1230	935	**14141**
Education	2228	1498	1772	1894	2028	1515	874	967	640	**13416**
Transportation	1524	1397	1914	1620	952	738	631	519	486	**9781**
Construction	1269	951	988	1066	1207	1166	971	1030	904	**9552**
Wholesale Trade	1252	982	848	926	829	750	706	627	485	**7405**
Arts/Recreation	872	636	594	522	476	456	320	331	263	**4470**
Finance/Insurance	789	576	484	465	396	456	331	368	290	**4155**
Information	682	542	518	452	445	416	333	371	245	**4004**
Management	1704	360	199	167	402	157	127	148	116	**3380**
Real Estate	521	328	303	287	243	203	187	182	176	**2430**
Agriculture/Forestry	117	67	79	80	84	85	78	73	66	**729**
Utilities	80	43	47	37	26	28	26	19	15	**321**
Mining/Extraction	5	4	6	7	6	2	6	6	2	**44**

While this fact is somewhat counterintuitive during a public health crisis, there has been substantial evidence that many health practitioners, from dentists to chiropractors, have been unable to maintain revenue streams during COVID-19, and have thus laid off workers.[2]

In addition to causing short-term employment losses for health care practitioners in particular, COVID-19 has also accelerated existing long-term trends, such as a shift toward products and services that are less labor-intensive, more automated, and more tailored to the needs of individual consumers, that were already impacting many industries. For example, while industries like Retail were perhaps the most directly affected by economic shutdowns in March, Manufacturing and Construction businesses laid off a larger share of workers in June and July (see Figure 1).[5] This is likely because shocks to consumer demand have reverberated up the supply chain and rendered business services less necessary. The proliferation of economic hardship beyond the initial "hardest-hit industries" serves as a basis for discussing more broad-based and long-term economic recovery options, which will be the focus of this paper.

The proliferation of economic hardship beyond the initial "hardest-hit industries" serves as a basis for discussing more broad-based and long-term economic recovery options.

Below, we analyze policy proposals that aim to increase the long-term resilience of the economy by helping small businesses stay afloat, empowering consumers, and stabilizing state coffers. In the first two sections, we assess widely replicable loan strategies and tax credits and deductions aimed at reducing the cost of doing business, particularly for "Main Street" brick-and-mortar establishments. The aim of these measures is to provide comprehensive and often temporary relief targeted to firms most impacted by the COVID-19 economic crisis so as to save as many businesses as possible. However, as the long-term implications of COVID-19 for the economy become clearer, lawmakers should be more careful not to use taxpayer dollars to subsidize private business in a way that works against trends that may outlast the virus. If there's cause to believe, for example, that the cruise industry will suffer permanently depressed demand because of public health concerns, even after a COVID-19 vaccine, then targeting tax credits or other legislation to uniquely benefit the cruise industry is counterproductive.

The second part of facilitating this post-pandemic economic shift is in allowing businesses—both new and old—to capitalize on more permanent trends. Thus, we also provide a discussion of long-term infrastructure investments and regulatory reforms that simultaneously level the playing field for existing independent businesses and reduce barriers to future market entrants. Many of these reforms, such as those dealing with land use permitting and federal regulatory oversight, are less direct responses to the pandemic and more fundamental solutions for improving economic resilience. Thus, we have organized the following paper along a spectrum from, towards the beginning, immediate, short-term relief measures that stabilize the economy to, towards the end, broad-based, long-term reforms that hasten and bolster the recovery. In offering these recommendations, we consider the tradeoff between the need to shore up government revenues and stimulate consumer demand, as well as that between federal and state-level control over government spending. Throughout the paper, we base our suggestions on the needs of various industries that contribute greatly to independent enterprise in America—Retail, Construction, Hospitality, Real Estate, and others—and in crafting our recommendations we discuss, where appropriate, the unique needs of these industries. We also contextualize our suggestions with a discussion of federal stimulus the government has already enacted to help stabilize the economy (see Appendix A).

While Pioneer Institute has not yet evaluated the costs of any of the following proposals, a sufficient level of government transparency is a prerequisite for implementing any of them. That entails conducting a full cost/benefit analysis and having independent bodies such as the Congressional Budget Office estimate the proposals' contributions to the federal debt. The Institute fully encourages the government to make public as much data regarding the beneficiaries of stimulus spending as is practicable. The need for public scrutiny of government action and the critical role of government in alleviating the COVID-19 crisis are not mutually exclusive. Moreover, Pioneer makes its suggestions not because they should all be implemented immediately or simultaneously, but because they could each prove useful during an extremely volatile economic period. We recognize the significance of public policy during the impending economic recovery and the opportunity it poses to better prepare small businesses for future economic shocks.

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Loan Strategies

To facilitate recovery for industries most severely affected by the COVID-19 pandemic, governments have already proposed and implemented some stimulus packages. However, there are additional opportunities for all levels of government to specifically target businesses in these industries as well as others, and to ensure operations continue and jobs are maintained and eventually created during the recovery period.

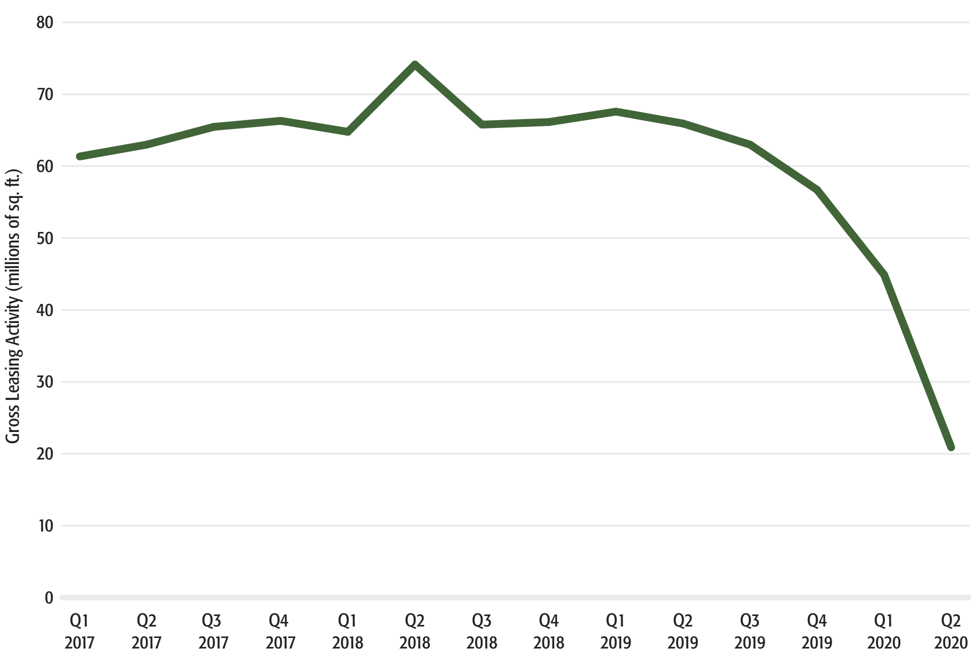
The following strategies would entail government aid to relieve immediate costs for businesses currently experiencing hardship due to COVID-19. For example, during the ongoing economic crisis, not only have businesses had to adapt to changes in consumer demand and evolving government restrictions, but also meet regularly scheduled debt and rent obligations and pay other fixed operating costs. To keep businesses viable and maintain jobs in these and other industries, the following proposals aim to relieve businesses of some of their costs and alleviate losses for collectors, who are also in many cases struggling to remain viable.

Rent relief

While many states, including Massachusetts, implemented an eviction and foreclosure moratorium to protect residents during the COVID-19 state of emergency, households are not the only ones paying rent during this period of economic devastation.[6] Businesses have also had rent due, and while many are beginning to recover, government aid for regularly scheduled rent payments would allow for improved cash flow as companies aim to reopen and rehire employees. But relief should also allow commercial landlords to recoup some costs. The commercial real estate market has collapsed at an astonishing speed during the COVID-19 crisis, with negative trends in leasing activity that predate the pandemic only worsening in recent months (see Figure 2). It is important to incorporate buy-in for both commercial tenants and landlords and utilize rent relief funds in a way that supports both.

The commercial real estate market has collapsed at an astonishing speed during the COVID-19 crisis, with negative trends in leasing activity that predate the pandemic only worsening in recent months.

Figure 2: Gross Leasing Activity in United States Office Buildings by Quarter, 2017–2020[7]



Canada has already enacted national rent relief for businesses using this loss-sharing model between tenants, landlords, and the government. The Canada Emergency Commercial Rent Assistance program created loans to certain commercial landlords to cover 50 percent of rent owed by small businesses for the months of April, May, and June. Loans to property owners were then eligible for forgiveness if they enacted, for the period of the loan, an agreement with eligible small businesses that would include a 75 percent reduction in rent and a non-eviction clause.[8] Tenants would be required to pay the remaining 25 percent. The Canada Emergency Commercial Rent Assistance program specified eligibility requirements for covered tenants and landlords, stating that eligible tenants included those paying less than $50,000 per month in rent and who closed during the stated period or had revenue losses of 70 percent or more compared with pre-COVID-19 levels. A federal agency directed these loans, but Canadian provinces and territories were responsible for 25 percent of the government-side costs.

In late July, the governor of New Jersey also announced an "emergency commercial rent assistance program" that uses CARES Act funds to help small businesses in certain municipalities. The program provides grants to business tenants in urban communities managed by the New Jersey Redevelopment Authority to help both tenants pay their rent and property owners collect it.[9] The program prioritizes lending to small businesses with fewer than 5,000 square feet of leased space and accepts applications on a rolling basis. A similar program run by the County of Riverside, California began in August, and contains similar eligibility requirements. However, this program provides rent relief exclusively to for-profit establishments, leaving out nonprofits and religious organizations.[10]

Federal or state programs should determine eligibility requirements based on revenue losses, the price of rent, and landlords' demonstrated agreements to reduce rent and limit evictions during the recovery period. While nonprofits and similar organizations may not experience reported income losses, fundraising and other revenue streams may be depressed as would-be donors face job losses and financial hardship, thus affecting nonprofits' ability to pay rent and other regularly scheduled dues. For this reason, nonprofits should not be excluded from such a rent relief program.

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Just as the loans in Canada are potentially forgivable, a U.S. option could entail some forgivable loans or other lower-cost borrowing plans for landlords, including low- or zero-interest repayment options if paid shortly after revenues are restored. This would still provide opt-in assistance for commercial property owners while lessening impacts on federal and state budgets. However, debt forgiven under such a program should be non-taxable to further stabilize the finances of small businesses. A graduated system of rent-relief loans based on the size of tenants, where larger tenants pay a greater, but still reduced share of total rent, would also provide relief to more businesses, not just small ones.

Any rent-relief program should also consider the differential effect missed rent payments have had on the Hospitality and Retail sectors. These industries make up about 22 percent of establishments in the United States, but 82 percent of the most delinquent commercial loans during the current crisis.[11] While targeting additional rent relief to these sectors directly might create an administrative burden, eligibility requirements for government rent-relief loans could be tailored to businesses in these industries. For example, dates used to assess financial losses incurred because of the virus could be specified based on when most shutdowns first affected local retail and hospitality establishments in the United States. Businesses incurring a financial loss beyond a certain percentage of pre-COVID revenue would then be eligible for the loans.

There is also a big difference between rent negotiations with local retail businesses and independent restaurants and those involving shopping malls and large restaurant and hotel chains. Large chains often have stronger central financing and more leverage in negotiations with landlords, especially if they are anchor tenants of a larger shopping complex.[12] Small businesses may also be more vulnerable to predatory lending practices that allow investors to take over elements of business operations after missed payments. Generally, large banks have been more lenient with tenants than private equity firms before instigating foreclosure procedures during the crisis.[13] Furthermore, in traditional urban areas, mixed-use developments can create additional burdens for small retailers as rental payments missed by residential tenants force businesses to make up a larger share of a landlord's income. By contrast, larger retailers are often located in settings, such as big-box stores and strip malls, that do not include residential uses. Lawmakers should consider these distinctions when designing a commercial rent-relief program.

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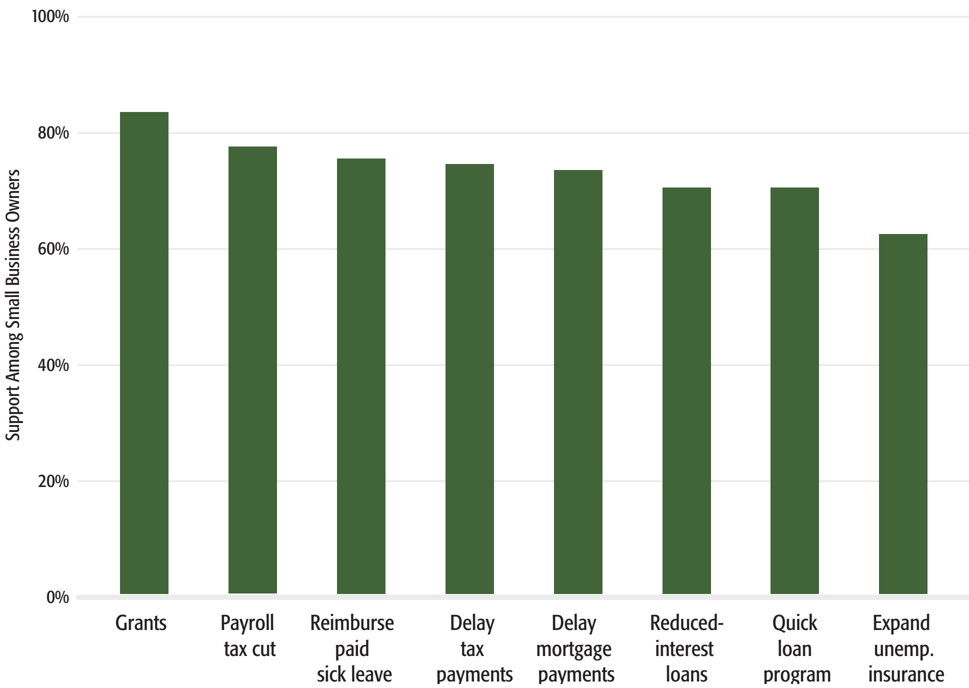
Debt payments

The U.S. Small Business Administration has already enacted payroll relief to businesses through Paycheck Protection Program (PPP) loans. While the PPP was necessary for businesses to rehire and keep employees on payroll as business slowed in March, other relief may be necessary to help businesses pay interest and debt. According to a 2019 Goldman Sachs survey of over

1,500 businesses, 73 percent of owners indicated that a government-initiated delay in mortgage payments without penalties would be helpful for the survival of small businesses (see Figure 3). Meanwhile, 70 percent of owners were in favor of reduced-interest loans, as well as "quick loans" provided by governments within a few days of receiving an application.[14] These preferences were articulated pre-COVID-19, and the negative impact of the pandemic on the economy is more than likely to inflate these levels now.

Figure 3: Share of Small Business Owners Saying Various Government Relief Measures Would Help Mitigate Economic Impact of COVID-19, March 2020[15]



To encourage banks and credit card companies to extend payment timelines, the federal government could create low- or zero-interest loans and tax credits for such lenders to provide them with funding capacity. To receive such loans, lenders would be required to create agreements with businesses that outline deferred debt payment schedules. Once businesses begin recovering and are able to pay deferred debt payments according to agreed-upon schedules, lenders would then be responsible for repaying their short-term loans to the government over time. The federal government should identify a proper length of time to encourage lenders to offer as an extension for currently due debt payments, as well as eligibility requirements for the deferred payments similar to those required for Paycheck Protection Program loans or rent relief programs.

During the initial wave of COVID-19, the Small Business Administration announced it would make six monthly payments toward SBA 7(a) loans, where the government provides a guarantee to lenders; 504 loans, which are mortgage-type loans provided to businesses demonstrating creation of jobs or meeting certain public policy objectives; and micro-loans, issued by individuals instead of a larger lending entity.[16] Such payments will include principal, interest, and fees and will apply to any business receiving any of the three types of SBA loans described here. However, as CARES Act funding for various COVID-19-related forgivable loans and grants dwindles, enacting low-interest loans in a new round of stimulus may be a viable option to improve cash flow moving forward.

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Tax Credits and Deductions

Targeted consumer credits

Some public policy proposals are aimed at changing consumer rather than business behaviors.

Examples include the Vacation Tax Credit proposed by Martha McSally, which, if passed, would grant a tax credit of $4,000 per adult and $500 per child to be claimed for any trips taken between December 31, 2019 and Jan 1, 2022.[17] The credit would only work for trips taken further than 50 miles from one's home, a restriction that some public health experts argue would undermine efforts to restrict travel from other states as they fight the spread of COVID-19.

Alternatively, in the more immediate term, similar tax credits for local spending, such as at restaurants, might be more effective than a tax credit that essentially pays people to go on vacation. Tax credits for certain types of consumer spending, including brick-and-mortar retail purchases and meals purchased at independent restaurants, may drive in-person demand in hard-hit industries. Such tax credits should have a specific dollar amount limit for the year, and should be applicable to in-person sales or online sales from otherwise brick-and-mortar establishments, rather than wholly online retailers like Amazon and eBay.

COVID-19 safety equipment

Due to federal guidelines, as well as state and local mandates for reopening, many businesses are now required to implement certain procedures and precautions to ensure employees and customers are safe in their establishments. While masks, social distancing, hygiene, and sanitization are all necessary in retail settings during the pandemic, business owners have incurred significant costs to comply with these state reopening guidelines. For example, the installation of barriers, purchase and increased use of cleaning materials, and provision of personal protective equipment (PPE) to employees and customers can all prove costly.

State and federal governments should create tax credits for small business purchases of materials and goods directly related to mitigating the spread of COVID-19.

To simultaneously incentivize the use of safety precautions and enhance businesses' cash flow, state and federal governments should create tax credits for small business purchases of materials and goods directly related to mitigating the spread of COVID-19. The credits would decrease such businesses' tax liabilities or, if refundable, provide cash resources to businesses while subsidizing the cost of increased regulations due to state and local reopening guidelines. State and federal governments should develop a list of items considered immediately relevant to COVID-19 safety, including cleaning products, PPE (gloves, face masks and shields, and other gear), hand sanitizer, line-forming equipment, and barrier materials. Based on this common list, businesses can receive tax credits for making purchases of such approved materials, which will help them adhere to COVID-19 safety efforts and reduce the costs they incur doing so. These tax credits should also be refundable so that even businesses that are not currently profitable have an incentive to protect their customers and employees from COVID-19 risks.

This idea has already been proposed in Congress: the bipartisan Small Business PPE Tax Credit Act was introduced in mid-June. The bill allows eligible businesses to receive a tax credit for costs associated with acquiring PPE up to $25,000.[18] Given that some small businesses report having spent as much as $5,000 on PPE, such a tax credit would help small businesses that are spending more to keep their establishments safe and meet CDC guidelines even though, for many of them, revenues remain depressed.[19] Another proposal, the Healthy Workplace Tax Credit, introduced in the House in July, would provide a "refundable tax credit against payroll taxes for 50 percent of costs incurred by businesses for COVID-19 testing, PPE, disinfecting, extra cleaning, and reconfiguring workspaces."[20] This proposal seeks to not only provide a tax credit for the purchase of supplies, but would also take into account the labor and time spent on adapting to new regulations and safety measures.

State corporate excise taxes

In Massachusetts, the excise tax levied on corporations consists of two amounts: 8 percent of the corporation's taxable net income from in-state sales and $2.60 per every $1,000 of a corporation's taxable in-state property or taxable net worth. The total excise owed each year by a corporation is either the sum of these two calculations or $456, whichever is greater. This tax applies to any firm that incorporates to remove personal liability for business assets. For small firms, the minimum yearly excise may be a significant sum, especially during the COVID-19 pandemic.

In February 2020, before Governor Baker declared a state of emergency for the Commonwealth, the state House of Representatives proposed a new funding bill for transportation, which included a corporate tax hike.[21] Bill H. 4508 passed in the House in early March.[22] The bill lays out various measures for funding new transportation projects, including increasing the minimum corporate excise amount as revenue for such purposes. Additional brackets also contain graduated minimum tax amounts for increasing levels of income and net worth. But according to the Tax Foundation, Massachusetts already has the fifth-highest corporate tax levy in the United States, collecting 4.9 percent of total state and local tax revenues through the corporate excise.[23]

The stipulation that businesses must pay the greater amount of two corporate tax calculations puts unnecessary strain on their already diminished cash flow, especially for small businesses. To provide some relief and allow retention of much-needed cash during the recovery period, the state should eliminate the minimum corporate excise tax owed by incorporated businesses. While most Massachusetts businesses are sole proprietorships or limited liability partnerships and thus are not subject to the corporate excise tax, this policy change would aid smaller businesses that may otherwise be required to automatically pay the $456 minimum. At the very least, the Massachusetts Senate should amend the House transportation finance bill to eliminate hikes in the corporate excise to fund new transportation projects in the Commonwealth, especially since the financial viability of some of those projects may have changed because of COVID-19.

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Inventory purchases

Traditionally, inventory purchases were tax deductible only when the related merchandise was sold. However, under the Tax Cuts & Jobs Act of 2017, businesses are now allowed to deduct 100 percent of the cost of inventory purchases the same year as the purchases are made.[24] This policy could prove especially important during what is bound to be an atypical holiday shopping season later this fall.

Given overwhelming uncertainty about the virus and about consumer spending habits in the months ahead, Coresight Research reports that some firms will only order 50–75 percent of last year's holiday inventory, and time will tell whether these reduced orders prove sufficient.[25] But when small businesses claim their inventories as immediate tax deductions, cash flow will improve in many cases. Further, because a reduction in inventory purchases could wreak havoc on the entire supply chain, letting businesses claim purchases as immediate tax deductions removes any hesitancy they might have to keep sufficient inventory in stock while the economy recovers. While this immediate tax deduction policy may not be very impactful for companies still struggling with depressed demand, it might hasten the country's economic recovery from COVID-19 by incentivizing business purchases.

Unlike many other TCJA reforms, the immediate deductions for inventory purchases are permanent. However, these expedited deductions only apply to items under $2,500 and for businesses whose gross receipts total $25 million or less.[26] Both these stipulations could be loosened, at least temporarily, as a stimulus measure. The federal government should investigate whether maximum deductions allowed under the TCJA are high enough to maximize cash flow for small businesses during the COVID-19 recovery period.

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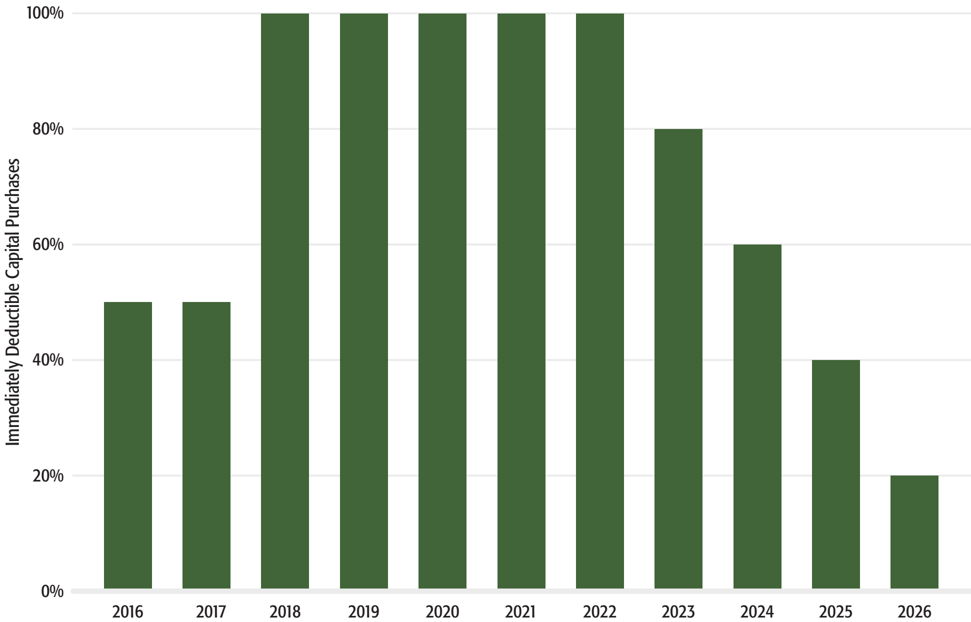
Capital purchases

Traditionally, capital expenditures made by businesses were tax deductible over time through depreciation or amortization charges.[27] Since the Tax Cuts and Jobs Act of 2017 was enacted, the U.S. government has allowed immediate tax deductions of 100 percent of the at-sale value of capital purchases by small businesses.[28] The clause is scheduled to expire at the beginning of 2023, but extending this provision could be a powerful form of post-COVID-19 stimulus (see Figure 4). Such a provision would provide innovative and growing firms longer security with improved cash flow and only impact the timing of federal tax receipts, not the overall value. The immediate and full tax deductions could also be applied to intangible assets (such as patents), if only temporarily, in order to help spur innovation as the economy recovers from COVID-19.

Figure 4: Federal Bonus Depreciation Rate in the United States under the TCJA, 2016–2026[29]



As a temporary stimulus measure, such an approach could be targeted to benefit primarily local, independent businesses by limiting eligibility to firms with below a certain number of employees. Another option is to raise the cap on tax deductions allowed under Section 179 of the U.S. Internal Revenue Code, which primarily benefits small businesses to begin with.[30] For example, the cap on immediate deductions under Section 179 is currently $1 million, and has been so since 2018.[31] The federal government should not only explore increasing this cap, but also implement a schedule that ties future increases to inflation. The deductions under Section 179 could also be expanded to cover additional kinds of purchases, although lawmakers should be careful to limit covered purchases to those most likely to benefit small businesses. For example, Section 179 generally does not apply to real estate purchases, and amending the tax code to allow tax deductions for real estate transactions would be unlikely to benefit small businesses, as relatively few small businesses own their buildings compared to larger businesses.[32]

Extending the Section 179 tax deductions to cover furniture for lodgings, such as hotel room beds and desks, could help keep smaller inns, bed & breakfasts, and other hospitality establishments viable.

However, extending the Section 179 tax deductions to cover furniture for lodgings, such as hotel room beds and desks, could help keep smaller inns, bed & breakfasts, and other hospitality establishments viable for the remainder of the pandemic.

The expiration of the TCJA capital purchases tax deductions may also come far too early to allow the economy to fully recover from COVID-19. Currently, the policy allowing immediate, 100 percent deduction of capital purchases is slated to expire just three years after the onset of the pandemic, after which the bonus depreciation rate decreases by 20 percent per year through 2026. By many measures, it took between seven and eight years for the economy to fully recover from the Great Recession, and extensions of the existing tax deduction policy for capital purchases under the Tax Cuts & Jobs Act should be considered to reflect that possibility.[33] This likely entails extending the 100 percent immediate deduction of capital purchases until at least 2026, with an incremental sunset clause coming into effect thereafter.

Regulatory Reform and Infrastructure Investments

As many independent establishments find themselves with newly constrained finances during the pandemic, new attention has been given to reducing long-standing regulatory burdens that disproportionately fall on small businesses. While some policymakers may be hesitant to implement permanent changes that would forego government revenue, some of these reforms may create long-term economic benefits that outweigh revenue losses by way of faster growth. Oftentimes, barriers to implementing such reforms involve more political risk than economic risk, as is the case when powerful, politically-connected insiders benefit from government-created scarcity.

Occupational licensing

This type of gatekeeping is notably embodied in our system of occupational licensing, which benefits existing business owners by discouraging market entrants. Given its tendency to stifle competition, occupational licensing ultimately hurts consumers as well as the market as a whole. State-issued licenses are justifiable in occupations where consumer safety is a concern, such as that of physicians, but even low-skill fields like cosmetology and commercial transportation are heavily licensed.[34] Moreover, the fees levied on applicants as part of the licensing process, which serves mainly to boost government revenue, is money better spent investing in the start-ups the applicants aim to create.

Massachusetts has particularly stringent licensing requirements for locally-oriented retail services. To operate as a sole proprietor, cosmetologists must put in at least 1,000 hours of training and have at least two years of experience before they can even apply for a license.[35] In other professions, there are no other education or experience requirements, just the licensing process itself, perhaps an indication of the superfluous nature of the licenses. Moreover, two of Massachusetts' neighbors, Connecticut and Rhode Island, have undertaken occupational licensing reform since 2016, eliminating licensing procedures entirely for occupations like swimming pool builders and itinerant vendors.[36]

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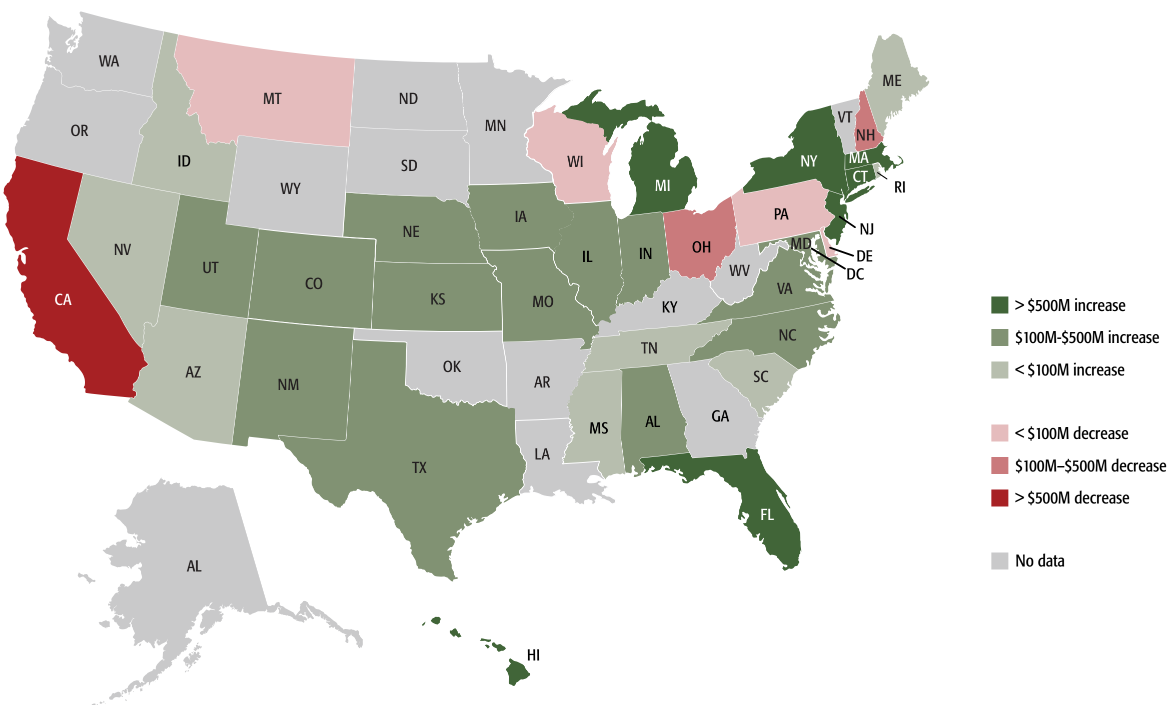
More incremental reforms that similarly streamline permitting for start-ups include replacing licensing procedures with less-involved certification processes, providing more oversight of licensing boards, and allowing businesses to waive licensing requirements among their staff, all of which have precedent in state-level decisions enacted since 2017.[37] In particular, state oversight of licensing boards could be an effective way of curbing abusive practices that aim to block consumer-friendly reforms in a particular field.[38] Massachusetts legislators should consider similar reforms that, at the very least, replace burdensome licensing systems with inspections or reduce training requirements for many blue-collar service occupations, with the goal of both helping Main Streets recover from COVID-19 and reducing administrative costs for the state. Furthermore, some studies have suggested that eliminating occupational licensing laws could increase state tax revenue by creating additional economic activity, although whether this argument holds during a global economic catastrophe is unclear (see Figure 5).[39]

Figure 5: Estimated Net Government Revenue Change from Eliminating Occupational Licensing by State, 2019[40]



Start-up and permitting costs

Perhaps a more uniform burden on new business owners in Massachusetts is the bureaucratic cost of starting a company. The fees associated with "filing articles of organization paperwork" to start a limited liability corporation are $500 in Massachusetts, nearly four times the national average of $130 and matched only by Illinois.[41] The cost must be paid every year, and the state even adds a 4 percent surcharge if the paperwork is filed online.[42] While the Commonwealth will likely be hesitant to forego this revenue on a permanent basis, other places, notably California, have already delayed similar fees at the local level.[43]

Likewise, fees levied for municipal service provision, such as waste disposal, police permits, and licensing for special events or displays, could be postponed for a number of months for certain businesses. Doing so would theoretically help stabilize local restaurants and retailers affected by the COVID-19 crisis by giving them an incentive to implement creative solutions to boost revenue. Meanwhile, the locality could still receive the revenue it is owed within the current fiscal year, limiting budgetary challenges created by this approach in an already dismal fiscal climate.

Further, the pandemic's hardest-hit communities could benefit from loosening eligibility requirements for state programs meant to expedite local permitting processes. For example, businesses looking to locate in old mill buildings or on abandoned industrial parcels currently only qualify for redevelopment priority under Chapter 43D of Massachusetts General Law if the property has at least 50,000 square feet of existing floor area.[44] However, many promising rehabilitation projects in the state have used much smaller properties. Examples include the Whitin Mill in Northbridge (36,500 square feet), St. Jean Baptiste's church in Lowell (24,200 square feet), and the Abbot Worsted Complex in Westford (32,000 square feet).[45] Providing looser reuse criteria for buildings in older, industrial areas could help prevent more properties from being abandoned during a potentially tough time for commercial landlords.[46] The scale of such buildings also signals the potential for mixed-use development, which could expand the customer base of existing businesses in these areas.

The pandemic's hardest-hit communities could benefit from loosening eligibility requirements for state programs meant to expedite local permitting processes.

Regardless of state programs that aim to rehabilitate abandoned properties, permitting processes for commercial construction favor large businesses over small, and many of these processes have become increasingly complicated in recent decades.[47] While all businesses are subject to development impact fees, expensive mitigations, environmental impact statements, and the restrictions of zoning codes, large corporations often have considerable experience navigating these regulations as well as more political and economic clout to try to overturn them or win exemptions. Leveling the playing field for locally-oriented establishments could involve streamlining the permitting process for brick-and-mortar stores with relatively low impact on environmental and transportation systems. Impact and consulting fees for new construction should reflect the scale and location of the development, and applicants for smaller projects should not be required to pay for community outreach on behalf of the government.[48] However, even without new construction, there is a lot that local governments can do to encourage a more adaptable and innovative use of commercial land.

Land use restrictions

A 2015 report ranked Massachusetts as having the third-strictest land use regulations in the country, and bureaucratic procedures add uncertainty and thousands of dollars to the process of building new retail spaces and adapting older buildings for commercial uses.[49]

While perhaps politically difficult, the simplest solution is to allow businesses to set up shop in a wider variety of places. In addition to allowing office-like home businesses in greater quantities, localities looking to facilitate a resurgence of small-scale retailers should consider permitting minimally disruptive retail on residential lots. Detached garages, backyard sheds, or even basements would be prime candidates. Traditionally, low-footprint businesses like corner stores and barber shops were common even in residential sections of small cities.[50] Restrictions on deliveries and carefully located parking and waste disposal may prove necessary to mitigate nuisance concerns, but a more flexible approach to zoning for small-scale commercial establishments could eliminate a major hurdle for entrepreneurs who would otherwise have trouble affording downtown rents or

Localities looking to facilitate a resurgence of small-scale retailers should consider permitting minimally disruptive retail on residential lots.

finding small-scale spaces elsewhere. Cities can even streamline the process for residents looking to add a commercial use on a property that historically had one.

For localities that don't want to even temporarily permit retail uses in residential spaces, reforming land use restrictions for residential construction alone would benefit the building industry. While comprehensive zoning reform is costly and time consuming, incremental changes that permit accessory dwelling units and adaptive reuse of older industrial parcels would allow owners and builders to capitalize on pent-up real estate demand in regions like Greater Boston and Cape Cod and, in this way, help expedite an economic recovery from COVID-19.[51]

Another idea is lowering or eliminating minimum parking requirements in desirable areas, which could allow more space for pop-up businesses like food trucks. Other types of regulation that should be scrutinized for their impact on small businesses include laws that allow private actors to file frivolous lawsuits under the guise of environmental or historical preservation.[52]

At the local level, residents and municipal officials often criticize commercial development for its potential impact on traffic congestion, an issue that makes it hard for innovative entrepreneurs to get past the Zoning Board of Appeals and its constituents.[53] Both state and local officials should proactively identify developable areas with additional capacity for vehicle throughput, transit connectivity, and municipal service provision based on current traffic volumes and infrastructure, especially for areas already in close proximity to decent-paying jobs. Government agencies could then use incentive programs and zoning overlays to increase the viability of small businesses there, potentially using federal stimulus.[54] In recent years, vacancies and blight in older shopping malls and office parks have increased, while retrofits in complexes like Mashpee Commons and the Wellesley Office Park demonstrate the potential to better use already-built-up areas.[55] Both projects involve adding locally-oriented businesses to a regional destination for entrepreneurship.

In recent years, vacancies and blight in older shopping malls and office parks have increased.

Federal Legislation

While the above long-term regulatory reforms mostly involve issues of local impact, federal officials could do more to examine the impact of federal regulation on small businesses. In the aftermath of a pandemic that, particularly in the hospitality and retail industries, has benefitted large chains at the expense of independent establishments, it may be appropriate to revive the Regulatory Improvement Act of 2017, legislation that would create a congressional committee to examine whether any recently enacted legislation is overly burdensome to small businesses.[56] First introduced on February 7, 2017, the bill died in the Oversight and Government Reform Committee on the same day for reasons that are publicly unknown. A similar House bill introduced in June 2019 also failed to come to a vote.[57]

The committee created by these bills would help increase the store of public knowledge regarding the relationship between federal regulations and business activity. In the COVID-19 era, in which government travel mandates, shutdowns of private enterprise, and other actions have enormous implications for public health and the economy alike, this knowledge would be especially valuable. As a Quartz Magazine journalist puts it, "the biggest problem with regards to regulation...is that we are lousy at figuring out if regulations, once in place, are actually working."[58]

Infrastructure

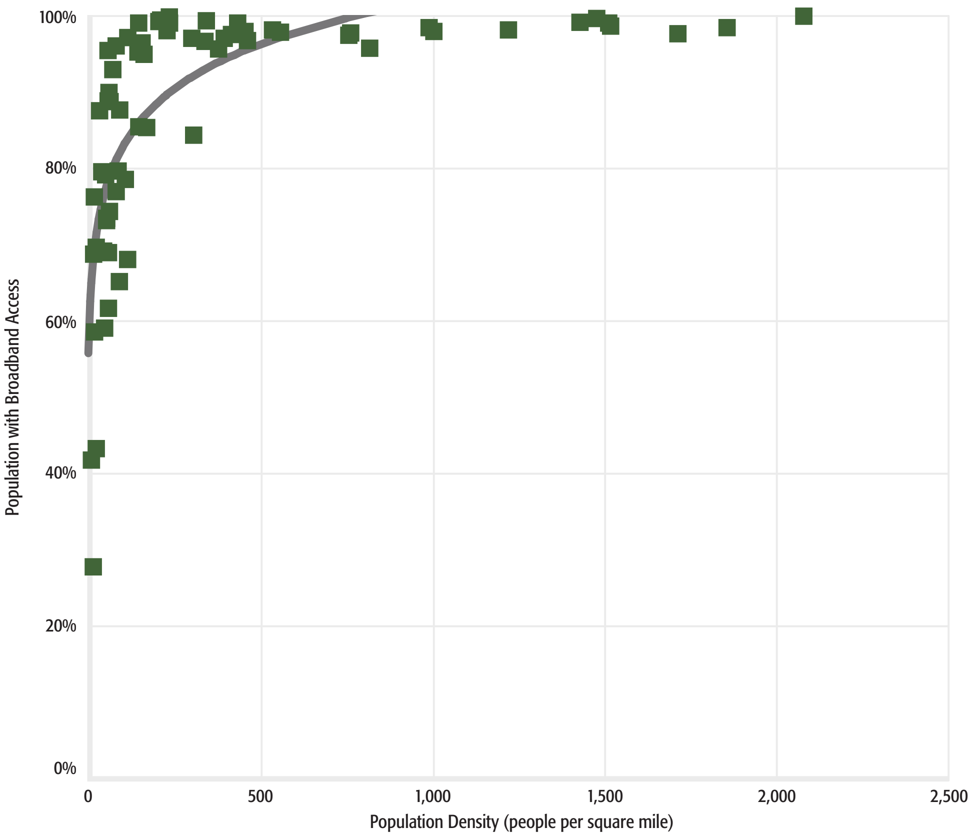
As a way of both facilitating the nation's recovery from COVID-19's economic fallout and strengthening the economy's long-term resilience, the federal government should invest in institutions and facilities that provide support to businesses and consumers alike. While transportation systems may be the most clear example of facilities in need of long-term investment, telecommunications are more immediately relevant for increasing productivity among businesses now operating largely from home offices.

It's no secret that rural areas, especially those far from job centers, lag behind the rest of the nation on high-speed internet access (see Figure 6). Though the federal government has already considered expanding and strengthening broadband networks in residential and rural areas as part of a COVID-19 relief package, it's woefully underprepared to target these investments effectively.[59] A coordinated federal loan program for internet access on the scale used during the New

It's no secret that rural areas, especially those far from job centers, lag behind the rest of the nation on high-speed internet access.

Deal's rural telephone access initiative can only work if the investment ultimately ends up in the hands of community leaders and local businesses, not large service providers.[60] Otherwise, the government risks throwing hundreds of millions of dollars at companies that have little incentive to provide faster service than the bare minimum required by law.

Figure 6: County-level Correlation Between Fixed Broadband Access and Population Density in New England, 2017*[61]



*Suffolk County, MA, which includes Boston, is excluded because it is such an outlier on the population density scale that it would make the rest of the graph unreadable. Some 98.6% of Suffolk County had broadband access in 2017.

Relatedly, the FCC should take more concrete steps to evaluate and, if necessary, raise standards for internet speed delivered by government contractors on an ongoing basis. As of February 2019, such contractors were only required to provide download speeds at 40 percent of broadband thresholds and upload speeds at 33 percent of thresholds.[62] As the rapid pace of technological progress continues in this era of increasing internet reliance, federal officials should review and consider raising these standards more frequently. Combining higher standards for large contractors with support for innovative solutions like fixed wireless links could increase competition for federal grants and subsidies and give rural communities more control over their broadband services.[63]

At the same time, the application process for broadband internet services should be easier for small business owners to complete. Not only is greater access to the internet an opportunity to spur innovation in fields like agriculture, but it will also make it easier for retailers, restaurants, and other businesses to reach consumers, keep their supply chains intact, and hire new workers during the COVID-19 recovery period.[64] Ultimately, investments in broadband internet services will improve the competitiveness of businesses in rural areas and help connect people from disadvantaged backgrounds to work and education opportunities in these places. Streamlining bureaucratic procedures for small community providers and individual establishments should help expedite economic development in rural areas.

Investments in broadband internet services will improve the competitiveness of businesses in rural areas and help connect people from disadvantaged backgrounds to work and education opportunities.

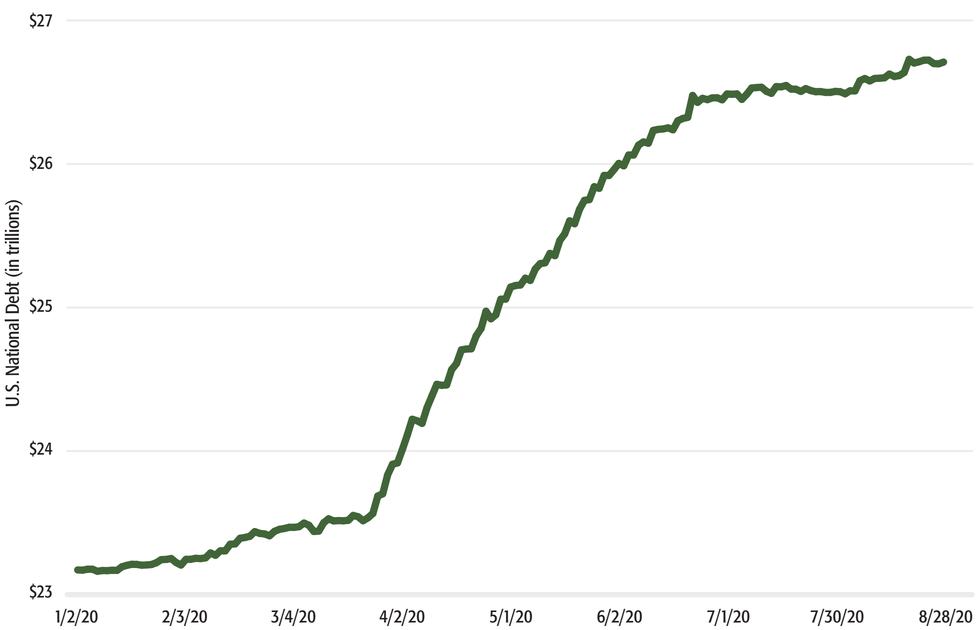
Public institutions, like schools, libraries, and government offices, will benefit from these investments as well. Expanding broadband access to more Americans now leaves the country better prepared for a future in which online and remote learning play a bigger role in public education and makes options like homeschooling more feasible.[65] There is also an economic argument to be made in giving disadvantaged schoolchildren access to the internet.[66] Beyond the well-documented return from human capital investments on an individual basis, occupying remote learners with online lessons enables parents working from home to be more productive.[67]

Fiscal Resilience

As many of the investments mentioned in the previous section may involve large increases in government spending, or at least instances of foregone or delayed revenue, some observers may be concerned about the fiscal impact of COVID-19 recovery efforts. After all, COVID-19 and the federal government's response to it have already combined to cause the U.S. national debt to balloon from 106 percent to 136 percent of GDP from last year to this, and there's been widespread concern about state and municipal budgets as well during the pandemic (see Figure 7).[68] Thus, the above government investments should not be made in isolation, but rather paired with reforms that help lawmakers spend public dollars more wisely and, when appropriate, with more flexibility. These reforms, combined with approaches that both help small businesses and raise government revenue, will allow all levels of government to emerge from the COVID-19 crisis with more sustainable finances.

The above government investments should not be made in isolation, but rather paired with reforms that help lawmakers spend public dollars more wisely.

Figure 7: U.S. Public Debt and Intragovernmental Holdings, January–August 2020[69]



Rainy Day Fund Reform

Stabilization ("rainy day") funds became a popular tool in the 1980s for states with balanced budget requirements to avoid spending cuts during recessions.[70] Following the burst of the dot-com bubble in 2001, the total amount of money in these funds nationwide declined 75 percent, and during the Great Recession it declined almost 40 percent.[71] Today, Massachusetts' stabilization fund has $3.5 billion, far less money than the $6 billion budget shortfall projected for Fiscal Year 2021.[72] S&P Global Ratings cited the state's then-modest rainy day fund as a major reason for downgrading its bond rating in 2017.[73] This speaks to a need for reforming how the state both contributes to and withdraws from the fund so that it both has the funds available and the flexibility to meet future crises.

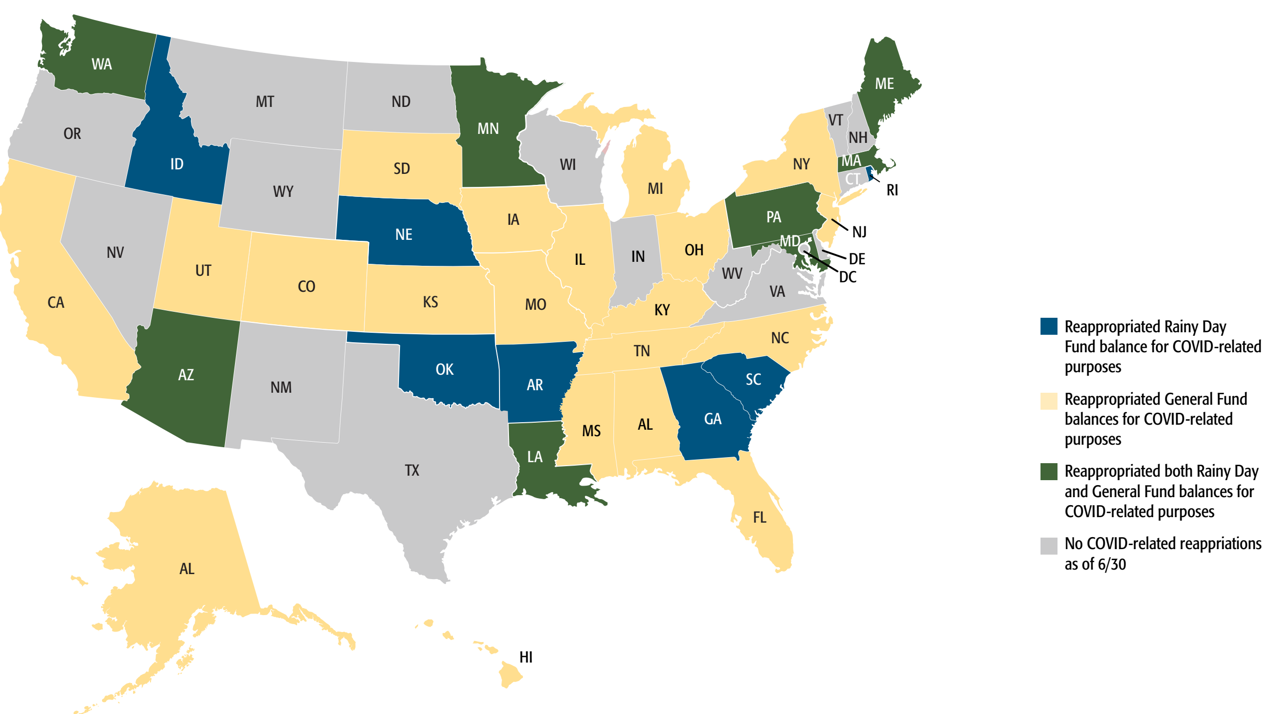
Massachusetts' stabilization fund has $3.5 billion, far less money than the $6 billion budget shortfall projected for Fiscal Year 2021.[72]

The Tax Foundation has identified withdrawal conditions, withdrawal amount limits, and withdrawal authorization procedures as the principal restrictions that dictate when stabilization funds can be used to alleviate fiscal emergencies, such as that created by COVID-19.[74] In Massachusetts, withdrawal conditions are already relatively loose. Six states allow use of stabilization funds for any reason; Massachusetts allows it in instances of both budget gaps and economic volatility. At least 16 states also permit withdrawal because of a "forecast error." Although budget gaps and forecast errors tend to closely coincide, the latter make for useful withdrawal conditions because they allow a state to act to stabilize its finances before a budget gap opens.

With an eye towards allowing the state government to act faster to use stabilization funds, it is worth noting that currently only the legislature can authorize withdrawal from the stabilization fund in Massachusetts.[75] In 24 other states, either the governor or a non-elected agency can withdraw money under certain conditions. This could be an effective strategy during an emergency like COVID-19, when it is difficult for the legislature to meet. While it already may be too late to reform withdrawal conditions in a way conducive to offering more COVID-19 relief, for states, including Massachusetts, that don't already operate under those conditions, such reform is crucial for increasing preparedness for future budget crises.

Conversely, reform efforts could also increase the conditions under which money would go into the fund, ensuring that enough is available when it is truly needed. Currently, Massachusetts essentially caps stabilization fund values at 15 percent of its budget during a given fiscal year by redirecting any excess money to the state Tax Reduction Fund.[76] The state should consider raising or eliminating the cap. While stabilization fund balances have never exceeded 15 percent of the state's budget, maintaining an arbitrary cap on the size of the stabilization fund could hurt state finances in the long-run by rendering the state ill-prepared for a prolonged budget crisis.[77] Moreover, 15 states, including Massachusetts, have already tapped stabilization funds for COVID-19-related relief (see Figure 8).[78]

Figure 8: Map of State Budget Reappropriations Since the Start of the COVID-19 Pandemic[79]



Massachusetts and other states should also consider additional revenue streams to put funding directly into the stabilization fund on an ongoing basis.[80] While the Commonwealth currently earmarks legal settlements over $10 million for deposit in the stabilization fund, they are not a reliable source of income.[81] By contrast, Oregon deposits all lottery revenue in its stabilization fund every year by law, and consequently has, as of April 2020, the country's eighth-largest stabilization fund as a share of the state budget.[82] While such an arrangement is not realistic for Massachusetts because most lottery proceeds go towards local aid, a portion of other "sin taxes," like those on cigarettes, may be appropriate revenue sources. An alternative is to build conditions conducive to government surplus into the budget every year, which surplus would then be allocated to the stabilization fund, but such an approach would likely be politically difficult. Regardless, lawmakers should keep in mind that every additional dollar added to the stabilization fund during times of prosperity is an additional dollar used to stimulate the economy and prevent needy families from falling into poverty during times of crisis.

While the Commonwealth currently earmarks legal settlements over $10 million for deposit in the stabilization fund, they are not a reliable source of income.[81]

Grant Programs

An opportunity for using existing revenue streams to improve long-term fiscal resilience lies in government grant programs. Federal grants to state and local governments fund everything from housing projects to legal services to nature preservation.[83] At a time when federal intervention to rescue state budgets devastated by economic shutdowns is a heavily politicized topic, repurposing grant programs intended for low-priority, long-term investments like highway expansion to respond to the immediate needs COVID-19 creates may make sense.[84] This could entail both aiding the recovery of brick-and-mortar establishments directly and providing funding to state and local governments to help them target social services in ways that address local needs. Providing flexibility in how federal dollars are spent during this time of crisis could ultimately shorten the recession and enable the government to begin investing again in items like infrastructure and housing development sooner than expected.

That said, repurposing existing grant programs could itself prove to be politically fraught, and should only take place on the federal level, as reappropriating funds among various federal programs is more feasible than in most local government agencies, despite the fact that it requires an act of Congress.[85] This distinction highlights the need for coordinating a response to the pandemic's economic fallout more carefully among federal, state, and local governments.

Federal Funding for States and Localities

Federal officials have already considered and enacted several stimulus measures, notably the CARES Act and the Paycheck Protection Program, which have played significant roles in the stabilization of the U.S. economy (see Appendix A). However, whether and to what extent the U.S. government should bail out state and local governments has proved politically contentious. While states' limited short-term borrowing power and over-reliance on volatile income sources (such as taxes on oil production) have necessitated some level of federal intervention during the current crisis, the U.S. government should set conditions for funding that bolster states' and localities' long-term fiscal health. Many of the suggestions laid out in this paper, such as rainy day fund reform, may be good candidates for these conditions. However, such conditions, when combined with the short-term injection of COVID-related federal aid, must have a net fiscal benefit for the states, and evaluating specific conditions within such a framework is beyond the scope of this paper.

Whether and to what extent the U.S. government should bail out state and local governments has proved politically contentious.

The above strategy of incentivizing reform in state finance is best combined with measures to better enable states to effectively target funding once it is under their control. In other words, there should be few restrictions on how states can spend federal funding related to COVID-19, as states, being closer to the problems that need to be addressed, likely know how to spend funds more effectively than the federal government does. Moreover, allowing states the flexibility to spend as they see fit to in the short-term will make them more likely to embrace and implement longer-term reforms. The federal government could explore other ways of removing restrictions on states that control how federal funding is spent locally, especially for grants related to business development, commerce, infrastructure, and other items crucial to the country's economic recovery from COVID-19.

Such an approach is also applicable to loan programs for individual businesses, such as the Paycheck Protection Program and other Small Business Administration grants. PPP stipulations and conditions have already been loosened in recent months, and there is still potential for added flexibility in how companies spend this money.[86] For example, the PPP presently doesn't allow businesses to spend program funds on independent contractors or debt service.[87] Unlike PPP recipients, it's unrealistic to expect states to repay federal COVID-19 relief funding, but both levels of government would be better off financially in the long-run if funding were leveraged to implement long-term state-level finance reforms.

PPP stipulations and conditions have already been loosened in recent months, and there is still potential for added flexibility in how companies spend this money.[86]

Recommendations and Conclusion

In recent weeks, as reopening efforts have stalled and the initial economic recovery from COVID-19 has slowed, less emphasis has been placed on short-term adaptations for individual businesses in favor of long-term, comprehensive reforms that aim to increase resilience in recognition of the transformational power of COVID-19. The result, as reflected in this paper, is a need to continue government stabilization of small businesses while reducing barriers to entry and increasing employment opportunities going forward. Cutting across both of these goals are several crucial themes that will shape the direction of independent enterprise in the United States for the foreseeable future.

The first concerns how small businesses use space, both inside their storefronts and within the broader context of their communities. Projections of widespread mall closures and plummeting retail and office rents highlight a potential mismatch between the land use needs of small businesses and the stock of existing commercial spaces.[88] In the short-term, rent relief efforts that avoid the displacement of commercial tenants and give all parties involved—landlords, tenants, and governments—skin in the game may prove necessary. In the long-term, especially in more urban areas, cities could make it easier to both build and adapt properties in residential neighborhoods for commercial uses and expand opportunities for small retailers to own their storefronts.

The second theme concerns the investments businesses are able to make in their own expansion and development. Making such investments easier will both expedite the nation's recovery from the current recession and enable the economy to withstand future negative shocks. In the immediate future, this entails helping businesses renegotiate debt payments that tend to crowd out investment, but also allowing broader and immediate tax deductions for investments in capital, inventory, and protective equipment and signage related to the pandemic. More fundamentally, the federal government could subsidize investments in telecommunications and other infrastructure, particularly as it benefits small businesses and households in rural communities.

The third theme concerns barriers to entry—the factors that limit the ability of start-ups to thrive and individual workers to participate in a field in the first place. Delaying or reducing excise taxes, start-up costs, and permitting requirements, even temporarily, could go a long way towards helping small businesses weather this crisis. Many localities have already streamlined processes for businesses to establish outdoor retail or dining space, but facilitating the adaptability of existing businesses does not necessarily make it easier to start one or hire additional workers. For this, state-level occupational licensing reforms and changes to tax requirements for new businesses could help.

Facilitating the adaptability of existing businesses does not necessarily make it easier to start one or hire additional workers.

The fourth and final theme concerns the ability of other parties—notably the government and consumers—to support small businesses when it's necessary. Tax credits for households to frequent local, independent establishments are immediately relevant to the COVID-19 crisis, especially if they are targeted to benefit hard-hit industries like retail and hospitality. The federal government could even use unrelated grant program funds to assist small businesses directly as needed, although this would likely require an act of Congress. In the long-term, however, all levels of government could help businesses by creating mechanisms for assessing industry needs and earmarking funds to be saved during times of prosperity for when economic stimulus is desperately needed. This could involve creating more reliable sources of revenue for state and local "rainy day" funds or creating institutions to assess the impact of federal regulations on small businesses.

Thus, in short, we summarize the main recommendations of this paper as follows:

Loan Strategies
- Enact a nationwide rent relief program targeted at small businesses
- Create federal incentives for lenders to extend debt payment deadlines for businesses

Tax Credits and Deductions
- Expand and extend federal tax deductions and tax credits on capital purchases, inventory purchases, and COVID-19-related spending
- Use federal tax credits to encourage consumers to support struggling businesses in hard-hit industries, especially brick-and-mortar stores
- Reduce or eliminate state corporate taxes that disproportionately burden small businesses

Regulatory Reform and Infrastructure Investments
- Reduce or eliminate state licensing requirements for blue-collar occupations and allow individual employers to waive such requirements among their staff
- Investigate opportunities to reduce local start-up and permitting costs for business, including loosening eligibility requirements for existing state grant and loan programs
- Create opportunities for small businesses to form and thrive in a greater variety of neighborhoods, especially by way of incremental zoning reform and proactive mitigation of traffic, parking, and waste disposal concerns at the state and local levels
- Form a congressional committee to investigate the impacts of recently enacted federal regulations on small businesses and to assess whether the regulations are having the intended effects
- Make national investments in sufficient broadband networks for small businesses and residences alike, especially in rural America, and work to identify areas without high-speed internet access on an ongoing basis

Fiscal Resilience
- Enact reforms that permanently redirect certain revenue streams to states' stabilization funds while enabling greater flexibility of the usage of those funds during times of hardship
- Redirect funding from some federal grant programs to needs more immediate to the present economic crisis

The bottom line is that we need public sector investments now to support small businesses during the pandemic, and proposals that do not increase government costs in the long-term are especially appealing. Regardless, a full economic recovery from COVID-19 will require government and individual business leaders to develop a long-term strategy to re-assert Main Streets as the most viable and resilient symbols of American commerce.

We need public sector investments now to support small businesses during the pandemic, and proposals that do not increase government costs in the long-term are especially appealing.

Appendix A:
What has the federal government done so far to help Hardest-Hit Industries?

In the seven weeks between March 5 and April 23, 2020, Congress enacted four major pieces of legislation in response to the COVID-19 pandemic, authorizing a total of $2.9 trillion dollars in appropriations, tax expenditures, and Federal Reserve loans to support laid-off workers, stimulate spending, rescue struggling businesses, support medical providers, fund production of protection equipment, fund research of therapeutics and vaccines, and strengthen financial markets and lenders.[89]

These are:

Date Enacted	Bill Number, Title, Statute	Amount (Millions of $)
6-Mar-20	H.R. 6074-Coronavirus Preparedness and Response Supplemental Appropriations Act, P.L. 116-123[90]	$8,257
18-Mar-20	H.R. 6201-Families First Coronavirus Response Act P.L. 116-127[91]	$191,865
27-Mar-20	H.R. 748-Coronavirus Aid, Relief, and Economic Security Act P.L. 116-136[92]	$2,251,000
24-Apr-20	H.R. 266 Paycheck Protection Program and Healthcare Enhancement Act P.L. 116-139[93]	$483,400
	TOTAL	**$2,934,522**

The four major pandemic relief acts included numerous provisions that offered relief to businesses, including small and medium-sized businesses, totaling approximately $1.2 trillion of the $2.9 trillion authorized by the acts. Most notably, these included:

Provisions that Small and Medium-Sized Businesses are Eligible for	Cost (billions of $)
Paycheck Protection Program-forgivable loans for small businesses up to $10 million	$698
Allow individuals to offset nonbusiness income with full amount of business losses for tax years 2018 through 2020, or for farm losses, tax years 2018 through 2025	$135
Tax credits for paid sick leave and family medical leave	$95
Main Street Lending Program for small businesses (up to $600 billion in total loans)	$75
SBA loan programs including economic injury disaster loans	$62
Allow employers that were forced to shut down a 50 percent refundable tax credit against payroll taxes from March 13, 2020 through December 31, 2020	$55
Temporary increase in the amount of interest expenses that businesses may deduct, expansion of tax deductible qualified medical expenses, temporary waiver of required minimum distributions, delay of payment of employer payroll taxes, modification of limitations on charitable contributions, and suspension of certain aviation excise taxes	$49
Permit businesses to offset 100 percent of taxable income for net operating losses incurred from 2018 through 2020.	$26
Debt relief for new and existing SBA borrowers	$17
SBA grants of up to $10,000 to small businesses, independent contractors, sole proprietors, and other small employers	$10
Total	**$1,212**

Of the numerous provisions listed above, three are of particular relevance to hardest-hit industries:

The Paycheck Protection Program (estimated cost: $698 billion): The largest benefit to hardest-hit industries included in the four major pandemic acts is the Paycheck Protection Program (PPP), which authorized potentially forgivable loans in the amount of 250 percent of an employer's average monthly payroll with a maximum loan value of $10 million.[94] On March 27, 2020, the CARES Act included $377 billion in PPP funding. On April 24, 2020, the Paycheck Protection Program and Healthcare Enhancement Act included $321.3 billion in additional funding for the PPP. According to the SBA, "the Paycheck Protection Program is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. SBA will forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses."[95]

Enhanced deductibility of prior year net operating losses (estimated cost: $135 billion): A significant advantage to small businesses included in the CARES Act is a relaxation of tax rules concerning the deductibility of prior year net operating losses (NOLs). The revised rules apply to corporations, including small businesses, as well as to owners of pass-through entities such as S corporations, partnerships, and LLCs. Prior to the Tax Cut & Jobs Act (TCJA) of 2017, businesses and owners of pass-through entities could carry back 100 percent of NOLs for 2 years and forward for 20 years. The TCJA repealed the two-year carry back allowance and limited losses carried forward to 80 percent of current year losses. The CARES Act allows businesses to file amended returns to carry back 100 percent of NOLs from years 2018, 2019, and 2020 for 5 years using expedited refund procedures established by the CARES Act.[96] The Congressional Budget Office estimates that the cost of this tax change is $135 billion.

Main Street Lending Program for small and medium-sized businesses (estimated cost: $75 billion in equity, facilitating up to $600 billion in total loans): The Main Street Lending Program was established by the CARES ACT to support the provision of credit to small and medium-sized businesses that were unable to access the PPP or that require additional financial support after receiving a PPP loan. Main Street loans are not forgivable, and the participating business must either have 15,000 employees or fewer or have 2019 annual revenues of $5 billion or less.[97]

Subsequent to passage of the four major relief acts, House of Representatives and Senate leaders have been negotiating a new relief act. On May 15, 2020, the House approved H.R. 6800, The Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act, which the Congressional Budget Office estimated would cost $3.455 trillion dollars over ten years.[98] On July 27, Senate Majority Leader Mitch McConnell announced a competing Senate proposal, The Health, Economic Assistance, Liability Protection and Schools (HEALS) Act.[99] Legislative leadership has announced that they will continue negotiations over a compromise version when Congress returns to session in September.

The following is an overview of provisions of The HEROES Act and The HEALS Act that pertain to hardest-hit industries, derived from a detailed analysis promulgated by the Washington D.C.-based law firm Brownstein Hyatt Farber Schreck, LLP.[100]

Paycheck Protection Program

The HEROES Act:

- Sets aside 25% of funds for businesses with 10 or fewer employees.
- Sets aside an additional 25% for nonprofits, with 12.5% to go to nonprofits with 500 employees or fewer.

The HEALS Act:

- Creates a new program to supplement the PPP loan program entitled "Paycheck Protection Program Second Draw Loans" for an additional 2.5 months of payroll costs.
- Sets aside $25 billion for borrowers who employ 10 or fewer employees and an additional $10 billion for community lenders under the Second Draw Loan program.
- Allocates $749 billion for PPP and PPP Second Draw loans through Dec. 31, 2020
- Reduces the maximum amount of a PPP loan issued after enactment to $2 million from $10 million.
- Expands allowable costs to include covered operations expenditures, covered property damage costs, covered supplier costs, and covered worker protection expenditures.
- Streamlines the forgiveness application process for loans under $2 million and imposes related congressional oversight requirements.

Tax Credits, Deductions, and Delays

The HEROES Act:

- Requires lenders to provide payment deferral of at least one year on principal and interest payments for 7(a) loans, and allows lenders flexibility for longer deferral periods. SBA may purchase the loan if an investor declines a lender request for deferral.
- Increases the applicable percentage of qualified wages for the Employee Retention Tax Credit from 50% to 80% and adds a phase-in so that companies with at least a 10% reduction in quarterly receipts can qualify for the credit. The HEROES Act also increases the ERTC $10,000 employee cap to $15,000 per employee, per quarter, and $45,000 per employee overall.
- Provides small employers with a refundable payroll tax credit for 50% of qualified fixed expenses (rent, utilities or mortgage) paid or accrued from March 12 to December 31 with a maximum value of $50,000.
- Provides a 90% refundable individual income tax credit, up to $45,000, for self-employed individuals who have experienced more than a 10% reduction in self-employment income from 2019 to 2020 in the conduct of a trade or business.
- Provides businesses a payroll tax deferral until the end of 2020 even if receiving loan forgiveness under the PPP.
- Provides a 30% payroll tax credit for qualified pandemic-related employee benefit expenses, or an equivalent credit of 50% for an "essential" employee as defined by the COVID-19 Heroes Fund. The employee benefit expenses may not exceed $5,000 per employee per year.

The HEALS Act:

- Enhances the Employee Retention Tax Credit by increasing the amount and percentage of eligible wages per employee to 65% and $10,000 per quarter and $30,000 aggregate for all quarters ($19,500 credit) per employee.
- Removes the 50% deduction limitation (so that a 100% deduction is allowed) for business meal expenses incurred at restaurants until Jan. 1, 2021.
- Enhances the Expansion of Work Opportunity Tax Credit to include qualified 2020 COVID-19 unemployment recipients, allowing a tax credit of 50% of $10,000 of wages per year ($5,000 credit) per individual (or 25% for those who work between 120 and 400 hours).
- Creates a refundable 50% payroll tax credit equal to the sum of qualified employee protection expenses, workplace reconfiguration expenses, and workplace technology expenses.

Other

The HEROES Act:

- Provides that Net Operating Losses for tax years 2019 and 2020 may only be carried back to 2018.
- Reinstates the $250,000 ($500,000 for joint return) limitation on excess business losses for pass-through businesses and sole proprietors that had been suspended for tax years 2018, 2019, and 2020.
- Extends the paid sick leave tax credits for employers having fewer than 500 employees and certain self-employed individuals through Dec. 31, 2021.

The HEALS Act:

- Provides $57.7 billion in direct appropriations (but authorizes up to $100 billion) for Recovery Sector Loans through Dec. 31, 2020.
- Creates new 7(a) loans of up to $10 million made to businesses with 500 employees or fewer that have suffered a reduction in gross revenue of 50% in the first or second quarter of 2020 compared to 2019.
- Creates a new $10 billion facility under the Small Business Investment Act of 1958 that participating SBICs can invest in and allows the SBA to consider bank-owned, non-levered applicants for this facility.

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