

# **A Guide to Small Business Funding Opportunities and Incentives**

*How to Navigate the Grant Process*

Compliments of  
U.S. Senator Kirsten E. Gillibrand  
New York



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*This document will be continuously updated as information becomes available.*

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## Introduction

Dear Fellow New Yorker:

As we continue to take significant steps towards economic recovery, small businesses must be at the heart of our efforts. Small businesses not only make up about 98 percent of all U.S. firms and employ over 50 percent of our workforce, but more importantly, are responsible for creating over 70 percent of all new jobs. As Senator, I am fully committed to supporting New York's small businesses and ensuring that our entrepreneurs and small business owners have the funding to expand and prosper.

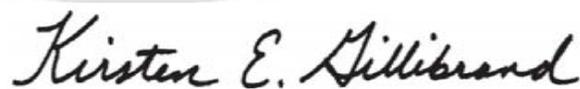
New and growing small businesses face specific challenges, and providing them with adequate financial and technical assistance is essential to maintaining their existence and ensuring their ability to sustain themselves. There are a large number of agencies dedicated to offering loans, grants, tax incentives and other types of assistance to startup, growing, and established small businesses. However, many small business owners are either unaware of the range and extent of assistance available to them, or are unsure of where to find this information.

Finding the resources that meet your needs in this complex web of agencies can be an impossible task. For this reason, I have created this guidebook to serve as a starting point in providing information about what resources are available and how best to go about accessing this assistance. Its contents are by no means comprehensive and will be updated periodically as more details become available.

The guidebook is comprised of six different sections providing information about grant funding sources, strategies for writing effective grant proposals and ways in which my office can assist you in this process.

My Senate website ([www.gillibrand.senate.gov](http://www.gillibrand.senate.gov)) is continually updated with critical information about new programs available to you, how to access these programs, and where to apply. If you require assistance accessing a specific program, please contact any of the numbers provided in this packet, or my New York City office at (212) 688-7444. As you move forward with any grant opportunities, please contact Abraham Hiatt, my Grants Director, for letters of support, when applicable. You can reach him in my Washington, D.C. Office at [Grants@Gillibrand.Senate.gov](mailto:Grants@Gillibrand.Senate.gov), or (202)-224-4451.

Sincerely,



Kirsten E. Gillibrand

## Small Business Resources

1. For small business resources specific to New York State, including information on starting or expanding a business, please visit: <http://www.nylovessmallbiz.com/>
2. For more information on federal small business loans, please visit: <http://www.sba.gov/services/financialassistance/index.html>
3. For veterans looking for business assistance, please visit the Veterans Business Outreach Center at: <http://www.vboc.org/>

### Section I

## Small Business Loans

### 1) 7(a) Loan Program

- The 7(a) Loan Program is SBA's primary program to help start-up and existing small businesses obtain financing when they might not be eligible for business loans through normal lending channels. The name comes from section 7(a) of the Small Business Act, which authorizes SBA to provide business loans to American small businesses. SBA itself does not make loans, but rather guarantees a portion of loans made and administered by commercial lending institutions.

#### Additional Information:

- 7(a) loans are the most basic and most commonly used type of loans. They are also the most flexible, since financing can be guaranteed for a variety of general business purposes, including working capital, machinery and equipment, furniture and fixtures, land and building (including purchase, renovation and new construction), leasehold improvements, and debt refinancing (under special conditions). Loan maturity is up to 10 years for working capital and generally up to 25 years for fixed assets.

All 7(a) loans are provided by lenders who are called participants because they participate with SBA in the 7(a) program. Not all lenders choose to participate, but most American banks do. There are also some non-bank lenders who participate with SBA in the 7(a) program which expands the availability of lenders making loans under SBA guidelines.

7(a) loans are only available on a guaranty basis. This means they are provided by lenders who choose to structure their own loans by SBA's requirements and who apply and receive a guaranty from SBA on a portion of this loan. The SBA does not fully guaranty 7(a) loans. The lender and SBA share the risk that a borrower will not be able to repay the loan in full. The guaranty is a guaranty against payment default. It does not cover imprudent decisions by the lender or misrepresentation by the borrower.

**Eligibility:**

- All applicants must be eligible to be considered for a 7(a) loan. The eligibility requirements are designed to be as broad as possible in order that this lending program can accommodate the most diverse variety of small business financing needs. All businesses that are considered for financing under SBA's 7(a) loan program must: meet SBA size standards, be for-profit, not already have the internal resources (business or personal) to provide the financing, and be able to demonstrate repayment. Certain variations of SBA's 7(a) loan program may also require additional eligibility criteria. Special purpose programs will identify those additional criteria.

Eligibility factors for all 7(a) loans include: size, type of business, use of proceeds, and the availability of funds from other sources. The following links will provide more detailed information on these eligibility issues.

<http://www.sba.gov/contractingopportunities/officials/size/index.html>

**2) CDC/504 Loan**

- The CDC/504 loan program is a long-term financing tool for economic development within a community. The 504 Program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. A Certified Development Company is a nonprofit corporation set up to contribute to the economic development of its community. CDCs work with the SBA and private-sector lenders to provide financing to small businesses. There are about 270 CDCs nationwide, with each covering a specific geographic area.

Typically, a 504 project includes a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a junior lien from the CDC (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business being helped.

**Additional Information:**

- **What funds may be used for:**  
Proceeds from 504 loans must be used for fixed asset projects such as: purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots and landscaping; construction of new facilities, or modernizing, renovating or converting existing facilities; or purchasing long-term machinery and equipment. The 504 Program cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing.

**Terms, Interest rates and Fees:**

Interest rates on 504 loans are pegged to an increment above the current market rate for five-year and 10-year U.S. Treasury issues. Maturities of 10 and 20 years are available. Fees total approximately three (3) percent of the debenture and may be financed with the loan.

**Eligibility:**

- To be eligible, the business must be operated for profit and fall within the size standards set by the SBA. Under the 504 Program, the business qualifies as small if it does not have a tangible net worth in excess of \$7.5 million and does not have an average net income in excess of \$2.5 million after taxes for the preceding two years. Loans cannot be made to businesses engaged in speculation or investment in rental real estate.

**Contact:**

- For more information, please visit:  
<http://www.sba.gov/services/financialassistance/sbaloantopics/cdc504/index.html> or call 1-800-827-5722

### 3) Disaster Loan

- If you are in a declared disaster area and are the victim of a disaster, you may be eligible for financial assistance from the U.S. Small Business Administration - even if you don't own a business. As a homeowner, renter and/or personal-property owner, you may apply to the SBA for a loan to help you recover from a disaster.

**Additional Information:**

- Personal Property Loan: This loan can provide a homeowner or renter with up to \$40,000 to help repair or replace personal property, such as clothing, furniture, automobiles, etc., lost in the disaster. As a rule of thumb, personal property is anything that is not considered real estate or a part of the actual structure. This loan may not be used to replace extraordinarily expensive or irreplaceable items, such as antiques, collections, pleasure boats, recreational vehicles, fur coats, etc.
- Real Property Loan: A homeowner may apply for a loan of up to \$200,000 to repair or restore their primary home to its pre-disaster condition. The loan may not be used to upgrade the home or make additions to it. If, however, city or county building codes require structural improvements, the loan may be used to meet these requirements. Loans may be increased by as much as 20 percent to protect the damaged real property from possible future disasters of the same kind.
- The law requires a test of your ability to obtain funds elsewhere in order to determine the rate of interest that will be charged on your loan. This credit-elsewhere test also applies to applicants for both personal property and real property loans

**Contact:**

- Telephone: 1-800-827-5722  
Website:  
<http://www.sba.gov/services/financialassistance/sbaloantopics/property/index.html>

## 4) Export Express Loans

- The SBA Export Express program provides exporters and lenders a streamlined method to obtain SBA backed financing for loans and lines of credit up to \$250,000. Lenders use their own credit decision process and loan documentation; exporters get access to their funds faster. The SBA provides an expedited eligibility review and provides a response in less than 24 hours.

### **Additional Information:**

- SBA Export Express loans are available to businesses that meet the normal requirements for an SBA business loan guaranty. Financing is available for manufacturers, wholesalers, export trading companies and service exporters. Loan applicants must demonstrate that the loan proceeds will enable them to enter a new export market or expand an existing export market. Applicants must have been in business, though not necessarily in exporting, for at least 12 months.
- **Loan Amount**  
The maximum Export Express line of credit/loan amount is \$250,000. Participating banks receive an 85% SBA guaranty on loan amounts up to \$150,000 and 75% on loan amounts between \$150,000 - \$250,000.
- **Interest Rate**  
The SBA does not establish or subsidize interest rates on loans. Interest rates are negotiated between the borrower and the lender, but may never exceed SBA interest rate caps. Rates can either be fixed or variable, and are tied to the prime rate as published in The Wall Street Journal.

### **Contact:**

- New York City:  
Territory: New York City & 5 Boroughs  
Toni Corsini  
22nd Floor  
New York, New York 10004  
Telephone: 212-809-2645  
Fax: 212-809-2687  
Email: [toni.corsini@mail.doc.gov](mailto:toni.corsini@mail.doc.gov)

Western New York:  
Patrick Hayes  
Regional Manager, Export Solutions Group  
Office of International Trade  
600 Superior Avenue, Suite 700  
Cleveland, Ohio 44114  
Telephone: 216-522-4731  
Fax: 216-522-2235  
Email: [patrick.hayes@sba.gov](mailto:patrick.hayes@sba.gov)

## 5) Export Transaction Financing

- SBA's Export Working Capital Program (EWCP) loans are targeted for businesses that are able to generate export sales and need additional working capital to support these sales. SBA's aim for the EWCP program is to ensure that qualified small business exporters do not lose viable export sales due to a lack of working capital. SBA provides incentives to banks so that they will make export loans to companies who would otherwise lack the funds. EWCP loans are used for transaction financing. For example, EWCP loans will support 100% of supplier costs for an export transaction. The EWCP loans can also be used to even out cash flow when exporters have negotiated longer sales terms and cannot carry the resulting receivables with their own working capital. The EWCP loan can be a short-term loan for a single contract or in the form of a line of credit that supports ongoing export sales for a period of 12 months.

### Additional Information:

- Application is made directly to lenders. Interested businesses are encouraged to contact the SBA staff at a U.S. Export Assistance Centers (USEAC) to discuss whether they are eligible for the EWCP program and whether it is the appropriate tool to meet their export financing needs. The participating lenders review / approve the applications and submit the request to the SBA staff at the USEAC location servicing the exporters' geographical territory.
- The maximum EWCP line of credit/loan amount is \$2 million. Participating banks receive a 90% SBA guaranty provided that the total SBA guaranteed portion to the borrower does not exceed \$1.5 million. In those instances where the SBA guaranteed portion reaches the \$1.5 million cap, banks can still get a 90% guaranty thanks to a co-guaranty program between SBA and the Export-Import Bank of the United States (EXIM). Under this program, the bank still submits only one loan application to the SBA and receives a 90% U.S. government guaranty that is backed by both agencies. For the EXIM Bank guaranteed portion, a higher fee may apply.
- **Interest Rate**  
The SBA does not establish or subsidize interest rates on loans. The interest rate can be fixed or variable and is negotiated between the borrower and the participant lender.

### Contact:

- For more information, please call the U.S. Small Businesses Administration at 800-827-5722 or [answerdesk@sba.gov](mailto:answerdesk@sba.gov)

## 6) International Trade Loans

- The SBA International Trade Loan program is a term loan designed for businesses that plan to start/continue exporting or those that have been adversely affected by competition from imports. The proceeds of the loan must enable the borrower to be in a better position to compete.

### Additional Information:

- **Eligible Businesses**  
Small businesses that are in a position to expand existing export markets/develop new export markets or small businesses that have been adversely affected by international trade and can demonstrate that the Loan proceeds will improve their competitive position are eligible for International Trade Loans
- **Loan Amount**  
The maximum gross amount (\$2 million) and SBA-guaranteed amount (\$1.5 million) for an International Trade loan is the same as a regular 7(a) loan. However, there is an exception to the maximum SBA 7(a) guaranty amount to one borrower. When there is an International Trade loan and a separate working capital loan, the maximum SBA guaranty on the combined loans can be up to \$1.75 Million as long as the SBA guaranty on the working capital loan does not exceed \$1,250,000.
- **Interest Rate**  
The SBA does not establish or subsidize interest rates on loans. Interest rates are negotiated between the borrower and the lender, subject to SBA caps. Rates can either be fixed or variable, and are tied to the prime rate as published in The Wall Street Journal. For loans greater than \$50,000 and maturity in excess of 7 years, lenders may charge up to 2.75 percent over prime rate.

### Contact:

- For more information, please visit:  
<http://www.sba.gov/services/financialassistance/sbaloantopics/microloans/index.html>  
or call 1-800-827-5722
- For application forms, please visit:  
[http://www.sba.gov/services/financialassistance/sbaloantopics/microloans/MICROL OAN\\_DOCS\\_FORMS.html](http://www.sba.gov/services/financialassistance/sbaloantopics/microloans/MICROL OAN_DOCS_FORMS.html)

## 7) Military Reservists Loan

- The purpose of the Military Reservist Economic Injury Disaster Loan program (MREIDL) is to provide funds to eligible small businesses to meet its ordinary and necessary operating expenses that it could have met, but is unable to meet, because an essential employee was "called-up" to active duty in their role as a military reservist.

These loans are intended only to provide the amount of working capital needed by a small business to pay its necessary obligations as they mature until operations return to normal after the essential employee is released from active military duty. The purpose of these loans is not to cover lost income or lost profits. MREIDL funds cannot be used to take the place of regular commercial debt, to refinance long-term debt or to expand the business.

Federal law requires SBA to determine whether credit in an amount needed to accomplish full recovery is available from non-government sources without creating an undue financial hardship to the applicant. The law calls this credit available elsewhere. Generally, SBA determines that over 90% of disaster loan applicants do not have sufficient financial resources to recover without the assistance of the Federal government. Because the Military Reservist economic injury loans are taxpayer subsidized, Congress intended that applicants with the financial capacity to fund their own recovery should do so and therefore are not eligible for MREIDL assistance.

**Additional Information:**

- The law authorizes loan terms up to a maximum of 30 years. SBA determines the term of each loan in accordance with the borrower's ability to repay. Based on the financial circumstances of each borrower, SBA determines an appropriate installment payment amount, which in turn determines the actual term.

**Loan Amount Limit - \$2,000,000:** The actual amount of each loan, up to this maximum, is limited to the actual economic injury as calculated by SBA, not compensated by business interruption insurance or otherwise, and beyond the ability of the business and/or its owners to provide. If a business is a major source of employment, SBA has authority to waive the \$2,000,000 statutory limit.

**Contact:**

- For more information, please call the U.S. Small Businesses Administration at 800-827-5722 or [answerdesk@sba.gov](mailto:answerdesk@sba.gov)

## 8) Patriot Express Loan Initiative

- The new Patriot Express loan is offered by SBA's network of participating lenders nationwide and features our fastest turnaround time for loan approvals. Loans are available up to \$500,000 and qualify for SBA's maximum guaranty of up to 85 percent for loans of \$150,000 or less and up to 75 percent for loans over \$150,000 up to \$500,000. For loans above \$350,000, lenders are required to take all available collateral.

**Additional Information:**

- Eligible military community members include:
  - Veterans
  - Service-disabled veterans

- Active-duty service members eligible for the military's Transition Assistance Program
- Reservists and National Guard members
- Current spouses of any of the above
- The widowed spouse of a service member or veteran who died during service or of a service-connected disability

The SBA and its resource partners are focusing additional efforts on counseling and training to augment this loan initiative.

**Contact:**

- For more information, please visit:  
<http://www.sba.gov/services/financialassistance/sbaloantopics/microloans/index.html>  
or call 1-800-827-5722
- For application form, please visit:  
[http://www.sba.gov/services/financialassistance/sbaloantopics/microloans/MICROLOAN\\_DOCS\\_FORMS.html](http://www.sba.gov/services/financialassistance/sbaloantopics/microloans/MICROLOAN_DOCS_FORMS.html)

## 9) Microloans

- The Microloan Program provides very small loans to start-up, newly established, or growing small business concerns. Under this program, SBA makes funds available to nonprofit community based lenders (intermediaries) which, in turn, make loans to eligible borrowers in amounts up to a maximum of \$35,000. The average loan size is about \$13,000. Applications are submitted to the local intermediary and all credit decisions are made on the local level.

**Additional Information:**

- The maximum term allowed for a microloan is six years. However, loan terms vary according to the size of the loan, the planned use of funds, the requirements of the intermediary lender, and the needs of the small business borrower. The maximum loan amount is \$35,000, however, the average loan amount is around \$13,000. Interest rates vary, depending upon the intermediary lender and costs to the intermediary from the U.S. Treasury. Generally these rates will be between 8 eight percent and thirteen percent.

**Contact:**

- For more information, please visit:  
<http://www.sba.gov/services/financialassistance/sbaloantopics/microloans/index.html>  
or call 1-800-827-5722
- For application forms, please visit:  
[http://www.sba.gov/services/financialassistance/sbaloantopics/microloans/MICROLOAN\\_DOCS\\_FORMS.html](http://www.sba.gov/services/financialassistance/sbaloantopics/microloans/MICROLOAN_DOCS_FORMS.html)

## Section II

### Technical Support and Development Programs

#### 1) Small Business Administration: Special Group Programming

- The Small Business Administration has Women’s Business Centers (WBCs) in each state. The WBCs provide women with help in all areas of business: finance, marketing, management, production, human resources, etc. The SBA provides grants to cover some of the WBCs’ costs.  
Each of the SBA’s district offices has a women’s business ownership representative to provide women with assistance.
- A technical support program targeted for economically and socially disadvantaged groups is the Native American Outreach, which provides technical support for American Indians, Alaskan Natives, Native Hawaiians, tribally owned small businesses and businesses located in Native American communities.
- The SBA provides specialized business development support of veterans, reservists, and National Guard members. It does this through Veterans Business Outreach Centers. Help includes pre-business plan workshops, concept assessments, business plan assistance, training, and mentoring. Veterans business development officers are located in each state and provide similar assistance. In addition, the National Veterans Business Development Corporation (VeteransCorp) provides business advice to veterans.

**Contact:**

- More Information: <http://www.sba.gov/>

#### 2) Entrepreneurial Assistance Program (EAP)

- The EAP establishes centers in local communities to provide instruction, training, technical assistance and support services to individuals who have recently started their own business or are interested in starting a business. The program’s EAP centers are located throughout the State.

The EAP offers such programs on developing basic business management skills, refining business concepts, devising early-stage marketing plans and preparation of action plans. In addition, the program actively assists EAP client efforts to obtain business financing. Two thirds of the centers operate or are formally affiliated with a micro-loan fund.

**Contact:**

- Point of Contact: Joyce Smith, NYC Office, Empire State Development  
Telephone: (212) 803-3234  
More Information:  
[http://www.nylovesbiz.com/small\\_and\\_growing\\_businesses/entr\\_assistance.asp](http://www.nylovesbiz.com/small_and_growing_businesses/entr_assistance.asp)

### 3) Small Business Development Centers (SDCS)

- SBDCs provide free or low-cost assistance to small businesses using programs customized to local conditions. The SBDC also focuses on projects that advance the job development, investment, and economic growth priorities of New York State, with an emphasis on manufacturers, exporters and technology-oriented firms. SBDCs support small business in marketing and business strategy, finance, technology transfer, government contracting, management, manufacturing, engineering, sales, accounting, exporting, and other topics. SBDCs are funded by grants from the SBA and matching funds. There are more than 1,100 SBDCs with at least one in every state and territory.

**Contact:**

- Telephone: (800) 732 - 7232  
More Information: <http://www.nyssbdc.org/index.cfm>

### 4) Women's Business Centers

- The Women's Business Center is dedicated to training and assisting women in business or those who want to startup a business. This Center provides a variety of business skills and ongoing technical assistance to women in thirty-four counties. WBCs are similar to Small Business Development Centers, except they concentrate on assisting women entrepreneurs. Programs include training, counseling, technological support, and networking.

**Contact:**

- Point of Contact: Patricia Badgley  
Email: [NYWBC@aol.com](mailto:NYWBC@aol.com)  
Telephone: (877) 844-9848  
More Information: <http://www.nywbc.org/index.html>

## 5) Service Corps of Retired Executives (SCORE)

- The Service Corps of Retired Executives (SCORE) uses over 11,000 volunteers to bring practical experience to start-up small business and to those thinking about starting a new small business. SCORE provides mentoring, workshops.

### **Contact:**

- Five New York State Offices  
New York City Telephone: (212) 264-4507  
More Information: <http://www.score.org>



## Section III

### Capital Access Programs

#### 1) Small Business Administration Programs

- **Small Business Investment Companies (SBICs).** Small Business Investment Companies (SBICs) are privately owned companies that are licensed by the SBA to provide debt and equity capital to small businesses. They can obtain loans from the SBA to supplement their own capital. For the SBIC program, a small business is a business with net worth of \$18 million or less and an average after-tax income for the two preceding years of \$6 million or less. There are alternative size standards in some industries. The SBIC sells a debenture to the SBA, which guarantees repayment and creates a pool of these debentures for resale on the secondary market. SBICs can borrow three times their private capital to a maximum of \$113 million.
- **New Market Venture Capital.** New Market Venture Capital is a program that encourages equity investments in small businesses in low-income areas that meet specific statistical criteria established by regulation. A tax credit is available on a competitive basis.

**Contact:**

- Telephone: (518) 402-8839  
More Information:  
<http://www.dec.ny.gov/regulations/2364.html>

## Section IV Tax Incentives

### 1) Alternative Minimum Tax Exemption

- As a result of the Taxpayer Relief Act of 1997 (P.L. 105-34), certain small corporations have been exempt from the AMT since 1998. Eligibility is determined by a corporation's average annual gross receipts in the previous three tax years. All corporations formed after 1998 are exempt from the AMT in their first year with taxable income, regardless of the size of their gross receipts. They remain exempt as long as their average annual gross receipts do not exceed \$5 million in their first three tax years, and as long as their average annual gross receipts do not exceed \$7.5 million in each succeeding three-year period (e.g., 1999-2001, 2000-2002, etc.). If a corporation loses its eligibility, it becomes subject to the AMT in the first tax year when it no longer qualifies for the exemption and in every tax year thereafter, regardless of the amount of its gross receipts.

#### **Additional Information:**

- There is reason to believe that this exemption gives some eligible small corporations what amounts to a slight competitive advantage over comparable firms paying the AMT. A 1997 study estimated that firms that invested heavily in machinery and equipment and intangible assets like research and development (R&D), financed the bulk of their investments through debt, and paid the AMT for five or more successive years had a higher cost of capital than comparable firms that paid the regular income tax only in the same period. The exemption also provides owners of small firms with an incentive to incorporate, since the taxable income of pass through entities is subject to the individual AMT through the tax returns filed by individual owners.

#### **Eligibility:**

- All corporations formed after 1998, provided that their average annual gross receipts do not exceed \$7.5 million in each succeeding three-year period (e.g., 1999-2001, 2000-2002, etc.)

#### **Contact:**

- For more information, please visit:  
<http://apps.irs.gov/newsroom/article/0,,id=204410,00.html>

### 2) Amortization of Business Start-Up Costs

- Under IRC Section 195 (as amended by P.L. 108-357), business taxpayers who incur business start-up and organizational costs after October 22, 2004, are allowed to deduct up to \$5,000 of those costs in the year when the new trade or business begins. This maximum

deduction is reduced (but not below zero) by the amount by which eligible expenditures exceed \$50,000. Any eligible expenditures that cannot be deducted may be amortized over 15 years, beginning in the month when the new trade or business begins to earn income. In order to claim the \$5,000 deduction, a taxpayer must have an equity interest in the new trade or business and actively participate in its management.

**Additional Information:**

- Business taxpayers who incurred or paid business start-up and organizational costs and then entered a trade or business on or before October 22, 2004, could amortize (or deduct in equal annual amounts) those expenditures over not less than five years, beginning in the month when the new trade or business commenced.

To qualify for the current deduction, the start-up and organizational costs must meet two requirements. First, they must be paid or incurred as part of an investigation into creating or acquiring an active trade or business, as part of starting a new trade or business, or as part of an activity done to produce income or profit before starting a trade or business with the aim of converting the activity into an active trade or business. Second, the costs must be the similar in kind to costs that would be deductible if they were paid or incurred in connection with the expansion of an active trade or business in the same industry entered by a new firm.

The option to deduct as much as \$5,000 in business start-up and organizational costs in the first year of operation clearly benefits small start-up firms. It permits the owner of such a firm to deduct expenses in the year when the business begins. Without such a provision, the expenses could not be recovered until the owner sells his or her interest in the business. In effect, the option accelerates the recovery of certain necessary business costs, and this acceleration can aid the growth of small start-up firms by reducing their cost of capital and increasing their cash flow at a time when their access to debt and equity markets may be limited. For firms that lose money in their first year of operation, the deduction can increase their net operating losses for tax purposes, which may be carried back up to two years or forward up to 20 years and used to offset taxes paid or owed. According to the Joint Tax Committee, the amortization or deduction of qualified business startup and organizational costs could lead to an estimated revenue loss of \$0.8 billion in FY2009.

### 3) Net Operating Losses

- A firm incurs a net operating loss (NOL) for tax purposes when its deductions exceed its gross income. As a result, it has no income tax liability in an NOL year. An NOL may be used to obtain a refund of taxes paid in previous years or to reduce or offset future tax liabilities. Under IRC Section 172(b), a business taxpayer is permitted to carry an NOL back to each of the two tax years preceding the NOL year and forward to each of the 20 tax years following that year.

**Additional Information:**

- A provision of the American Recovery and Reinvestment Act of 2009 extended the carry back period for NOLs to five years for eligible firms that incurred an NOL in 2008. Only firms with average annual gross receipts of \$15 million or less in the NOL year and the two previous tax years may take advantage of the extension. The provision is intended to bolster the cash flow of small firms that have experienced a significant loss of revenue in the current recession.

The Joint Committee on Taxation estimates that the NOL carry back expansion for qualified small firms will produce a revenue loss of \$4.7 billion in FY2009.

**Contact:**

- For more information, please visit:  
<http://www.irs.gov/businesses/corporations/article/0,,id=168641,00.html>

#### **4) Partial Exclusion of Capital Gains on Certain Small Business Stock**

- Two important considerations in determining an individual's income tax liability are the recognition of income as ordinary or capital and the distinction between long-term and short-term capital gains or losses.

**Additional Information:**

- Under IRC Section 1202, non-corporate taxpayers (including partnerships, LLCs, and S corporations) may exclude 50% of any gain from the sale or exchange of qualified small business stock (QSBS) that has been held for over five years. The exclusion rises to 60% if the QSBS has been issued by a qualified corporation based in an empowerment zone. And under a provision of the ARRA, it becomes 75% for QSBS acquired from February 18, 2009, through December 31, 2010, and held for five years.

There is a cumulative limit on the gain from stock issued by a single qualified corporation that may be excluded: in a single tax year, the gain is limited to the greater of 10 times the taxpayer's adjusted basis of all QSBS issued by the firm and sold or exchanged during the year, or \$10 million—reduced by any gains excluded by the taxpayer in previous years. The remaining gain is taxed at a fixed rate of 28%. As a result, the marginal effective tax rate on capital gains from the sale or exchange of QSBS held longer than five years is 14%:  $0.5 \times 0.28$ .

For individuals subject to the AMT, a portion of the excluded gain is treated as an individual AMT preference item, which means that it must be included in the calculation of AMT taxable income. The portion was 42% for QSBS acquired on or before December 31, 2000 and disposed of by May 6, 2003; 28% for QSBS acquired after December 31, 2000 and

disposed of by May 6, 2003; and 7% for QSBS acquired after May 6, 2003 and disposed of by December 31, 2008.<sup>26</sup>

To qualify for the partial exclusion, small business stock must satisfy certain requirements. First, it must be issued after August 10, 1993 and must be acquired by the taxpayer at its original issue, either directly or through an underwriter, in exchange for money, property, or as compensation for services rendered to the issuing corporation. Second, the stock must be issued by a domestic corporation whose gross assets do not exceed \$50 million before and immediately after the stock is issued. Third, at least 80% of the corporation's assets must be tied to the active conduct of one or more qualified trades or businesses during "substantially all" of the requisite five-year holding period. Assets used for working capital, start-up activities, or research and development meet the active business test, even if they are devoted mainly to the development of future lines of business. Specialized small business investment companies licensed under the Small Business Investment Act of 1958 also meet the active business test, making their stock eligible for the partial exclusion.

## **5) Losses on Small Business Investment Company Stock Treated as Ordinary Losses without Limitation**

- Under IRC Section 1242, individuals who invest in small business investment companies (SBICs) are permitted to deduct from ordinary income all losses from the sale or exchange or worthlessness of stock in these companies. This treatment is intended to foster equity investment in these companies by lowering the after-tax loss on an investment in an SBIC, relative to after-tax losses on similar investments.

### **Additional Information:**

- SBICs are private regulated investment corporations that are licensed under the Small Business Investment Act of 1958 to provide equity capital, long-term loans, and managerial guidance to firms with a net worth of less than \$18 million and less than \$6 million in average net income over the previous two years. They use their own capital and funds borrowed at favorable rates through SBA loan guarantees to make equity and debt investments in qualified firms. For tax purposes, most SBICs are treated as C corporations. There are no known estimates of the revenue loss associated with this small business tax benefit.

## **6) Rollover of Gains into Specialized Small Business Investment Companies**

- Individual and corporate taxpayers who satisfy certain conditions are allowed to roll over, free of tax, any capital gains on the sale of publicly traded securities. The proceeds from the sale must be used to purchase common stock or partnership interests in specialized small

business investment companies (SSBICs) licensed under the Small Business Investment Act of 1958 within 60 days of the sale. SSBICs are similar to SBICs except that SSBICs are required to invest in small firms owned by individuals who are considered socially or economically disadvantaged—mainly members of minority groups.

**Additional Information:**

- If the proceeds from the sale exceed the cost of the SSBIC stock or partnership interest, the excess is recognized as a capital gain and taxed accordingly. The taxpayer's basis in the SSBIC stock or partnership interest is reduced by the amount of any gain from the sale of securities that are rolled over. The maximum gain an individual can roll over in a single tax year is the lesser of \$50,000 or \$500,000 less any gains previously rolled over under this provision. For corporations, the maximum deferral in a tax year is the lesser of \$250,000 or \$1 million less any previously deferred gains.

## 7) Ordinary Income Treatment of Losses on Sales of Small Business Stock

- IRC Section 1244 allows taxpayers to deduct any loss from the sale, exchange, or worthlessness of qualified small business stock as an ordinary loss, rather than a capital loss. For business taxpayers, ordinary losses are treated as business losses in computing a net operating loss.

**Additional Information:**

- To qualify for this treatment, the stock must meet four requirements. First, it must be issued by a domestic corporation after November 6, 1978. Second, the stock must be acquired by an individual investor or a partnership in exchange for money or other property, but not stock or securities. Third, the stock must be issued by a small business corporation, which the statute defines as a corporation whose total amount of money and property received as a contribution to capital and paid-in surplus totals less than \$1 million when it issues the stock. Finally, during the five tax years before a loss on the stock is recognized, the firm must have derived more than 50% of its gross receipts from sources other than royalties, rents, dividends, interest, annuities, and stock or security transactions. The maximum amount that may be deducted as an ordinary loss in a tax year is \$50,000 (or \$100,000 for a couple filing jointly).

## 8) Uniform Capitalization of Inventory Costs

- IRC Section 263A requires business taxpayers engaged in the production of real or tangible property, or in the purchase of real or tangible and intangible property for resale, to “capitalize” (or include in the estimated value of their inventories) both the direct costs of the property included in inventory and the indirect costs that can be allocated to it. This requirement is known as the uniform capitalization rule and was added to the tax code by the Tax Reform Act of 1986.

**Additional Information:**

- Nonetheless, some small firms are exempt from the uniform capitalization rule. Specifically, it does not apply to tangible or intangible property acquired for resale by a business taxpayer that had average annual gross receipts of \$10 million or less in the three previous tax years.

**9) Simplified Dollar-Value LIFO Accounting Method for Small Firms**

- LIFO operates on the assumption that the most recently acquired goods are sold before all other goods. Consequently, LIFO assigns the newest unit costs to the cost of goods sold and the oldest unit costs to the ending inventory. The method can be advantageous when the cost of many inventory items is rising, because it yields a lower taxable income and inventory valuation than other methods. There are various ways to apply LIFO. A widely used application is known as the dollar-value method. Under this method, a taxpayer accounts for its inventories on the basis of a pool of dollars rather than specific items.

**Additional Information:**

- IRC Section 474, which was added to the tax code by the Tax Reform Act of 1986, allows eligible small firms to use a simplified dollar-value LIFO method. It differs from the regular dollar-value method in the way in which inventory items are pooled and the technique for estimating the base-year value of the pools. A firm is eligible to use the simplified method if its average annual gross receipts were \$5 million or less in the three previous tax years.

**10) Tax Credit for Pension Plan Start-Up Costs of Small Firms**

- Under IRC Section 45E, qualified small firms may claim a non-refundable tax credit for a portion of the start-up costs they incur in setting up new retirement plans for employees. The credit, which was enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001, began in 2002 and originally was scheduled to disappear (or “sunset”) after 2010. But a provision of the Pension Protection Act of 2006 permanently extended the credit. It is a component of the general business credit and thus subject to its limitations and rules for carryover. The credit is equal to 50% of the first \$1,000 in eligible costs incurred in each of the first three years a qualified pension is operative. Eligible costs are defined as the ordinary and necessary expenses incurred in administering the plan and informing employees about the plan’s benefits and requirements. Qualified plans consist of new defined benefit plans, defined contribution plans, savings incentive match plans for employees, and simplified employee pension plans.

**Additional Information:**

- Firms with fewer than 100 employees, each of whom received at least \$5,000 in compensation in the previous year, are eligible to claim the credit. They can do so only if at least one highly compensated employee participates in the plan.

**Eligibility:**

- The credit gives owners of small firms an incentive to establish pension plans for employees by lowering the after-tax cost of setting up and administering these plans in their first three years.

## 11) Tax Credit for Cost of Making a Business More Accessible to the Disabled

- Under IRC Section 44, an eligible small firm may claim a non-refundable credit for expenses it incurs to make its business more accessible to disabled individuals. The credit is equal to 50% of the amount of eligible expenditures in a tax year over \$250 but not greater than \$10,250. In the case of a partnership, this upper limit applies separately at the partnership level and at the partner or individual level; the same distinction holds in the case of a subchapter S corporation. The disabled access credit is a component of the general business credit under IRC Section 38 and thus subject to its limitations.

**Additional Information:**

- To qualify for the credit, a firm must satisfy one of two requirements: its gross receipts (less any returns and allowances) in the previous tax year totaled no more than \$1 million, or it employed no more than 30 persons on a full-time basis during that year. A worker is considered a full-time employee if he or she works at least 30 hours a week for 20 or more weeks in a calendar year.

**Eligibility:**

- Qualified expenses are defined as the amounts an eligible small firm pays or incurs to bring its business into compliance with the Americans With Disabilities Act of 1990 (ADA). They must be reasonable in amount and necessary in light of legal requirements. Eligible expenses include those related to removing architectural, communication, transportation, or physical barriers to making a business accessible to or usable by disabled individuals; providing interpreters or other effective methods of making materials understandable to hearing-impaired individuals; and supplying qualified readers, taped texts, and other effective methods of making materials understandable to visually impaired individuals.

## Section V Grant Programs

### 1) Small Business Administration

- **Small Business Innovation Research Awards (SBIR).** SBIR awards are competitive grants to small businesses (500 or fewer employees) to research and develop new ideas for selected government agencies. Government agencies with the largest research budgets fund the SBIR program. The SBA coordinates and oversees the SBIR program but does not provide funding for the awards. Phase I grants allow a company to determine if an idea has scientific and technical merit and is feasible. Phase II evaluates the idea's commercial potential. Phase III is private sector development of the idea. Phase I awards are for a maximum of \$100,000 over six months, and phase II awards are for a maximum of \$750,000 over more than two years. Intellectual property rights are protected for four years after the completion of phase I, phase II, or phase III. For more details on SBIR awards, see CRS Report 96-402, *Small Business Innovation Research Program*, by Wendy H. Schacht.

#### **Small Business Technology Transfer (STTR) Awards.**

The STTR program is similar to the SBIR program, but it requires the small business to work with a nonprofit research institute. The SBA coordinates and oversees the STTR program but does not provide funding for the awards. Phase I awards are a maximum of \$100,000 for one year. Phase II awards are for a maximum of \$500,000 over two years. While there is no STTR funding for phase III, the awarding agency may issue a sole source contract to a team that has successfully reached this stage.

#### **Additional Information:**

- Application Due Date: Open Deadline

#### **Eligibility:**

- Rural Fire Companies

#### **Contact:**

- Point of Contact: New York State Department of Environmental Conservation  
Telephone: (518) 402-8839

## 2) Long Island Region Improving Community (LIRIC) Grant Program

- The LIRIC Grant Program is designed to help Long Island employers implement programs that reduce traffic congestion and pollution during peak commute-to-work hours. Grants can be used to promote alternatives to drive-alone commuting, including: carpooling, vanpooling, telecommuting, public transportation and bike/walk travels.

### **Eligibility & Requirements:**

- Eligible grantees include public and private employers as well as owners/operators of major trip generators (shopping malls, office parks, etc.) with at least 30 employees at a single work site. Planning and development studies are not eligible for LIRIC funding.

In order to receive a LIRIC Grant, employers must be members of the Commuter Choice Program.

Once an inquiry is received, Long Island Transportation Management will administer a site survey to employees to analyze commute habits and assess which commute alternatives show the greatest promise. A return rate of at least 50% is required to proceed with the grant application process.

### **Eligible projects include:**

- Carpool incentive programs
- Vanpools
- Guaranteed Ride Programs
- Parking Management
- Employer-provided transit fare subsidy programs
- Telecommute Programs (Capitol acquisition of computers is not eligible.)
- Bike To Work Programs

Programs that bridge gaps in existing transit service such as operation of new shuttle bus services between worksites and park-and-ride lots or railroad stations. (Capital acquisition of buses is not eligible.)

LIRIC grantees are strongly encouraged to develop innovative and comprehensive work programs that may involve a number of actions, which if implemented, have high potential to reduce drive alone automobile travel on surrounding highways where traffic congestion is prevalent during peak periods.

### **Grant Awards**

Grants are limited to \$100,000 in total, or \$1,500 per participating employee, whichever is less. Funding availability is limited to a one-year time period.

### **Contact:**

- Grant Administrator: (631) 777-7722

## Section VI

### New York State Small Business Grants

#### 1) Empire State Development

##### *Entrepreneurial Assistance Program (EAP)*

- EAP assists new and aspiring entrepreneurs in developing basic business management skills, refining business concepts, devising early-stage marketing plans and preparation of action plans. In addition, the program actively assists EAP client efforts to obtain business financing. Two thirds of the centers operate or are formally affiliated with a micro-loan fund.

**Eligibility:**

- New and aspiring entrepreneurs.

**Application Deadline:**

- Ongoing

##### *Minority and Women-Owned Business Enterprises (MWBE) Development & Lending Program*

- The minority and Women-Owned Business Enterprises (MWBE) provides financial assistance in the State, as well as to projects and programs that assist the development of entrepreneurship among minority persons and women in New York State.
- The funding can be used for linked deposits, minority and women revolving loan trust funds, contractor development assistance, business development loans, franchise loans, and incubator assistance.

**Eligibility:**

- Eligible recipients include certified minority and/or women-owned business enterprises, banking organizations, technical assistance providers, incubator sponsors, municipalities, authorities, agencies, and administering corporations.

**Application Deadline:**

- Ongoing

### ***Manufacturing Assistance Program***

- Empire State Development's Manufacturing Assistance Program (MAP) encourages manufacturers to invest in projects that will significantly increase the productivity and competitiveness of their operations by providing capital grants of up to \$1 million.

#### **Eligibility:**

- Resident New York State manufacturers employing 50 to 1,000 workers are encouraged to apply. Additionally, projects where investments of at least \$1 million are being made to significantly improve the productivity and/or competitiveness of a manufacturing operation are eligible.

#### **Application Deadline:**

- Ongoing

### ***Metropolitan Economic Revolving Fund***

- The Metropolitan Economic Revitalization Fund (MERF) provides loans to businesses or governments investing in projects that retain or create a significant number of private-sector jobs in economically distressed areas that are within the geographic area known as the NEW YORK portion of the service area of the Port Authority of New York and New Jersey. These areas include New York City and parts of Nassau, Westchester and Rockland counties.

#### **Eligibility:**

- Eligible applicants include for-profit and not-for-profit businesses and village, town and county governments located in the areas described above.

#### **Contact Information:**

- Please contact the Program Administrator at (212) 803-2317.

### ***Industrial Effectiveness Program (IEP)***

- The Industrial Effectiveness Program (IEP) provides technical and financial assistance to help New York State manufacturing firms address competitiveness issues that increase productivity, efficiency and market share. The eligible projects include information system upgrades, market expansion and product commercialization, and new product design and development.

#### **Eligibility:**

- New York State manufacturers that employ fewer than 500 workers

#### **Application Deadline:**

- Ongoing application.

## 2) New York State Department of Labor

### *H-1B Technical Skills Training Grant*

- These grants are financed by a user fee paid by employers to bring foreign workers into the U.S. under a new H-1B nonimmigrant visa. The grants are a long-term solution to domestic skill shortages in high skill and high technology occupations. H-1B technical skills grants are focused on addressing the high skill technology shortages of American businesses; they are not intended to address labor shortages due to reasons other than technical skill shortages.

#### **Eligible Applicants:**

- Eligible applicants for these grants will be local Workforce Investment Boards (Local Boards) established under section 117 of the Workforce Investment Act (WIA) and representing a local or regional public-private partnership that is comprised of at least one Local Board, one business or business-related non-profit organization such as a trade association, and one community-based organization, higher education institution or labor union that will carry out such programs.

#### **Application Deadline:**

- Ongoing until noted by the New York State Department of Labor.

## 3) New York State Banking Department

- The Banking Department offers several agencies that provide technical assistance to small and start-up businesses. The entities profiled here have programs which help entrepreneurs to obtain financing and manage their credit - i.e., developing business and marketing plans, applying for loans/equity, cash flow management, etc. - although some offer a broader menu of services. Offerings may include both one-on-one assistance and workshops/seminars covering a range of business topics.

#### **Contact:**

- Superintendent of Banks  
New York State Banking Department  
One State Street  
New York, NY 10004-1511

Telephone: 1-877-BANK-NYS

URL: <http://www.banking.state.ny.us/sba/ta.htm>

## Section VII

### Letters of Support from Senator Gillibrand

While Senator Gillibrand does NOT decide which organizations are awarded grants, there are instances in which it is appropriate for the Senator Gillibrand to write a letter of support for an application. If you wish to request a letter of support for your application, you must supply Senator Gillibrand with the following:

1. A description of your organization,
2. Summary of the application,
3. a description of what the money will be used for, and
4. a draft letter of support

Please forward this information to the nearest regional office:

#### **Capitol District**

Senator Kirsten E. Gillibrand  
Leo W. O'Brien Federal Office Building  
1 Clinton Square  
Room 821  
Albany, NY 12207  
Tel: (518) 431-0120  
Fax: (518) 431-0128

#### **Buffalo/Western New York**

Senator Kirsten E. Gillibrand  
Larkin at Exchange  
726 Exchange Street, Suite 511  
Buffalo, NY 14210  
Tel: (716) 854-9725  
Fax: (716) 854-9731

#### **Long Island**

Senator Kirsten E. Gillibrand  
155 Pinelawn Road  
Suite 250 North  
Melville, NY 11747  
Tel: (631) 249-2825  
Fax: (631) 249-2847

#### **New York City**

Senator Kirsten E. Gillibrand  
780 Third Avenue  
Suite 2601  
New York, New York 10017  
Tel. (212) 688-6262  
Fax (212) 688-7444

#### **North Country**

Senator Kirsten E. Gillibrand  
PO Box 273  
Lowville, NY 13367  
Tel. (315) 376-6118  
Fax (315) 376-6118

#### **Rochester Region**

Senator Kirsten E. Gillibrand  
Kenneth B. Keating Federal Office Building  
100 State Street  
Room 4195  
Rochester, NY 14614  
Tel. (585) 263-6250  
Fax (585) 263-6247

**Syracuse/Central New York**

Senator Kirsten E. Gillibrand  
James M. Hanley Federal Building  
100 South Clinton Street  
Room 1470  
PO Box 7378  
Syracuse, NY 13261  
Tel. (315) 448-0470  
Fax (315) 448-0476

**Washington D.C.**

Senator Kirsten E. Gillibrand  
United States Senate  
478 Russell Senate Office Building  
Washington, DC 20510  
Tel. (202) 224-4451  
Fax (202) 228-0282  
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**Westchester County**

Senator Kirsten E. Gillibrand  
Tel. (914) 725-9294  
Fax (914) 472-5073

