

1983

Baucus Capital Investment Program for Montana

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MONTH/YEAR of Records*: **January-1983**

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(1) Subject*: **Economy**

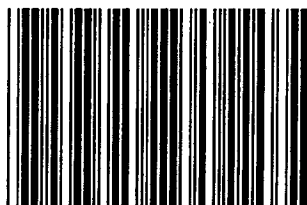
(select subject from controlled vocabulary, if your office has one)

(2) Subject* **Baucus Capital Investment Program for Montana**

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* "required information"



BAUCUS

BAUCUS CAPITAL INVESTMENT PROGRAM FOR MONTANA

- I. Goals -- Our overall goal is to ensure that sufficient capital is available, at an affordable cost, to fund the economic development program that we believe is necessary to stimulate private investment and increase the rate of Montanan job creation. Specifically, we will:

- A. Increase the availability of start-up and expansion capital for Montana small businesses.

"The consensus in the literature is that both the greatest need for expansion capital and the greatest potential for significant gains in employment opportunities are to be found among smaller firms."

-CRS Study Summary

- B. Slow the net outflow of small business expansion capital from rural areas to money market centers.

"Several studies confirm the existence of significant differentials in the cost of accessing capital markets by size class of firm. CAPITAL COSTS ARE INVERSELY RELATED TO FIRM SIZE AND MARKET POWER...this problem appears to be greatest in rural areas."

-CRS Capital Formation Study Summary

II. Vehicles for Increasing Capital Investment

- A. Tax Policy -- As a member of the Finance Committee, Max has the opportunity to review capital gains modifications, payroll tax policy, tax credits and other tax policies which directly affect the availability of small businesses to invest their own retained earnings.

- B. Pension Policy (ERISA Modifications) -- Again, as a member of the Finance Committee, Max can participate in modifying ERISA so that small businesses will once again be able to borrow from their company's pension funds for expansion.

- C. Small Business Policy -- The Small Business Committee can be used as a forum to evaluate new financial instruments, such as small business participating debentures, and to evaluate federal progress in assisting capital formation.

- D. State Activities -- Investment seminars and small business casework will ensure that existing federal programs are being fully utilized. In addition, our office will be used to bring in industrial policy experts and to study capital formation programs used in other states.

E. Other Federal Programs/Agencies -- UDAG, EDA, etc.

III. Baucus Record to Date

A. Max has supported many measures related to small business capital formation in the Small Business Committee (SBA Loan and Loan Guarantee programs, Small Business Participating Debentures, etc.)

B. Most recently, Max introduced, and the Senate passed, two Social Security amendments related to small business -- the deposit date relief amendment and the Social Security tax relief amendment. Both of these amendments would have freed additional capital for small businesses.

C. In the Finance Committee, Max has supported a number of capital creating provisions, including ERTA which contained significant depreciation, ITC, and estate modifications.

In addition, Max is currently a co-sponsor of several capital formation bills, and we are drafting a capital formation bill of his own.

IV. Proposed Activities for the 98th Congress

A. Legislative --

1. Tax Initiatives --

a. Capital Gains "Rollover" Provisions -- Max will participate in hearings to determine appropriate modifications in the treatment of capital gains. As a part of our overall package, we plan to introduce a capital gains "rollover" provision, which would provide an investor with an indefinite deferral of capital gain taxes when the proceeds from other capital assets are invested in a qualified small business corporation. The targeted, qualified, small businesses would be any corporations with assets of less than \$10 million and which are not publicly held. The result should be a flow of new funds into capital-hungry small businesses.

b. Direct Reductions in the Effective Corporate Tax Rates for Small Businesses -- We are currently looking at several approaches towards increasing the current \$100,000/46% tax ceiling on earnings. By raising the 46% level on earnings to \$4-500,000, small businesses would be able to finance operations from their own retained earnings.

c. Payroll Tax Modifications -- Payroll taxes are the fastest growing component of an employer's tax burden. A section of our capital formation bill will contain our deposit-date relief amendment, and our employer-cap (\$500) on the .3% increase in 1984 FICA taxes. These provisions, along with other payroll tax modifications, would provide additional cash for investment.

d. Extension of the Umbrella Revenue Bond Statutes -- This technical adjustment would allow continued pooling of smaller bonds to reach the required million dollar level needed to qualify for favorable tax treatment.

e. Other Investment Credits -- We are considering other credits, such as a direct \$2,000 credit for qualified small businesses, similar to current IRA programs. Credits of this nature would provide a direct incentive and source for needed capital investment.

2. Pension/ERISA Modifications - We propose to amend ERISA to permit secured loans from employer/employee pension plans to small businesses for up to 10 years at competitive interest rates, and permit "arms-length" leasing arrangements of real or personal property to or from pension plans. The loans and leases would be restricted to a maximum of 50% of the plan's assets.

This amendment would provide small firms with immediate access to reasonably priced capital; create an incentive for investment capital to be retained within a local community, and should increase the rate of return on pension investments.

3. Other Legislative Capital Formation Activities -

a. We are currently co-sponsors of a bill to allow the use of IDB's with SBA 503 loan guarantee monies. This combination can be important to Montana.

b. We are in the process of writing a bill which combines several capital formation recommendations of the 1980 White House Conference on Small Business.

B. Non-Legislative Activities --

1. September Capital Investment Seminar (Similar in scope to the 1981 Billings & Great Falls meetings)

2. Department of Commerce Procurement Seminar

3. Meetings with Montana financial community to encourage the development of a Montana-based small business Investment Corporation (SBIC).
