

Tax incentive: Will it work?

Legislature cooks up break for small business

By MICHAEL E. KANELL
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COMMERCIAL OVENS ARE EXPENSIVE — think \$2,500 — and that can more than double with the addition of a metal hood. Then there are refrigerators that cost about as much and, of course, stainless steel sinks.

“It costs about \$50,000 to build a perfect catering kitchen,” said Sidney Corum, chief executive of Lithonia-based, seven-worker Davidson Development Corp. “The average is \$25,000.”

Davidson renovates properties and then, through its catering unit, hosts events in them. The company hopes to grow, and a bill wending its way through the Legislature would let companies write off the cost of big purchases.

With a state tax rate of 6 percent, the savings would be modest but welcome.

“I think it's a great bill,” Corum said. “Anything that's going to help us small business owners gives us the opportunity to create new jobs. I'd like to invest in new health plans for our employees.”

Modeled on a similar provision in federal tax law, the bill was introduced by state Rep. Jay Roberts (R-Ocilla) and is the key legislative piece of the governor's economic package. The proposal, known as House Bill 282, would allow companies to write off up to \$102,000 in a single year.

The bill was approved unanimously by the House and also was passed by the Senate Finance Committee. A vote by the full Senate could come as early as today.

Passage is expected, according to the governor's office.

Despite the smooth legislative sailing so far, the idea has critics: It offers special treatment for a certain kind of income, is unlikely to make a big economic difference and won't help companies that are not yet profitable.

Among those outside the loop are high-tech startups whose first struggle is to raise money, said Richard Cope, partner in Atlanta Technology Advisors. “And these are the guys that hire people,” he said.

Before they can think about write-offs, they must invest that money, produce products and become profitable. A write-off will have no dramatic effect, he said. “It's nice, but it's not a needle-mover.”

Many small business executives and owners say they probably will not make investments just to have the write-off, but in an uncertain economy, every break helps.



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How much? The write-offs in the bill could mean savings up to \$6,120 on a company tax bill.

That payoff might be enough to tip decision-making, said Charles “Scooter” Sellers, owner of UnderSea Adventures, a 10-year-old store in Atlanta that sells diving equipment and offers scuba instruction.

Making the break permanent makes sense, he said. “I think it's a good idea. It would affect very few people being a one-time deal.”

Sellers doesn't plan any major investment in the store this year.

“But it would prompt me to at least take a look, to see what I could do to benefit from this,” he said.

Still, in a discretionary business like his, Sellers is more worried about demand: “If they did something to make consumers have more spending cash to spend on scuba equipment — that would affect me a lot.”

Growth, benefit linked

Companies making capital investments of less than \$410,000 would be eligible. For every dollar of investment more than that, the write-off would be reduced by a dollar.

The tax break is written that way so the benefit grows smaller as the tax-paying company grows bigger. The tax break would shrink to zero as a company's capital investment reaches \$512,000.

About 95 percent of the state's roughly 523,000 businesses have fewer than 500 employees.

Gov. Sonny Perdue said the bill would offer help to a critical component in the state's job-making machinery.

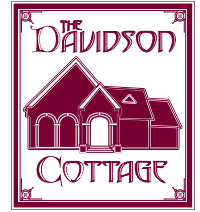
“Small business is Georgia's biggest economic engine for creating jobs and revenue,” he said in a statement. “This bill will give Georgia small businesses a boost they need and deserve. This bill will provide support for businesses to improve their bottom lines.”

Not every small business would see a benefit.

For instance, Unicycle.com in Marietta is expanding, but most of its expenses are in the cost of land and building. Neither of those investments will be covered in the state's write-off proposal.

The company is not buying the kind of equipment that is covered, since most of its manufacturing is done elsewhere, said founder John Drummond.

Still, the idea is attractive, he said. “If we could tie into something like this, that would be wonderful. We could go to the bank and borrow more or cough up less,” Drummond said.



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\$25 million savings

All told, the proposal would probably save \$25 million for Georgia companies, according to the governor.

But that's a marginal number for Georgia's \$300 billion-a-year state economy, said Rajeev Dhawan, director of the Georgia State University Economic Forecasting Center.

A depreciation offered by the federal government last year prompted a spurt of investment just before it expired, said Richard Kopelman, a partner with Habif, Arogeti & Wynne, an Atlanta-based accounting firm.

But the amount of money offered by HB 282 simply is not enough to make much of a difference for the economy or even many individual companies, Kopelman said.

Moreover, even without the bill, businesses get to write off investments as they depreciate, Kopelman said: The advantage is "the time value of money." That is, getting the write-off upfront.

"It's good, it's nice and it reduces paperwork," Kopelman said. "But I am not convinced it's going to jump-start the state economy."

Feds' break criticized

Among critics of the idea is Robert McIntyre, director of Citizens for Tax Justice, a Washington-based research and advocacy group.

By copying the federal government's write-off, the state write-offs have chosen a poor model, he argued.

For starters, the federal deductions did not produce a surge of hiring, but it did shift revenue from the Treasury, he said. "And now the government doesn't have the money to do things we want it to do, like provide veterans benefits."

The proposed write-off in Georgia likewise is a preferred treatment, he said.

"You have small business not paying taxes on part of its income but you have workers paying taxes on their wages," he said. "It's not government's job to tell business what to invest in. The government's job is to educate kids and build roads and do other things that people need. And you need a fair tax system to pay for that."

But small business executives see themselves as the source of job growth, and they will applaud anything that lightens their tax load, said Jim Jones, vice president of Dixie Finishing and past president of the Georgia Industry Association. "As the governor puts forth ways to help small business and manufacturing and keep companies from moving out of Georgia, giving them incentives to make capital investment, I think, is a very good idea," Jones said.



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