



**EBOOK:
THRIVING UNDER REGULATIONS:
HOW SMALL BUSINESSES CAN SUCCEED
IN POST-RECESSION AMERICA**

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THRIVING UNDER REGULATIONS: HOW SMALL BUSINESSES CAN SUCCEED IN POST-RECESSION AMERICA

The regulatory environment of 2014 is changing quickly. Amid the recovering economy, public focus on taxation and regulation issues has put serious pressure on legislators to make policies that balance helping businesses with helping employees. While navigating the changing environment can be difficult for some entrepreneurs and small business owners, those who are prepared can use their knowledge to thrive in the modern regulatory environment.

In this eBook for small business owners, we look at the regulatory issues that have changed in 2014 and those that will become important in the coming weeks and months. We cover new size regulations for small businesses, the rising minimum wage, federal contract set-asides for small businesses, the Affordable Care Act and bonus depreciation. Keeping you up to date with the latest changes in the U.S. regulatory environment is just one more way that Zions Bank helps small businesses to find success.



SIZE REGULATIONS

In an effort to stay flexible in the post-recession economy, the federal government has altered its definition of “small business.”

The Small Business Administration has changed the size standards the government uses to determine which organizations are eligible for the federal government’s small business lending and contracting programs.

An estimated 8,500 additional firms will now be considered small businesses under the new rules.

Parameter changes varied based on industry. Travel agencies and locksmiths, for example, may now qualify as small business if they make less than \$20.5 million per year. Clothing stores and software publishers can make up to \$38.5 million.

A complete list of small business size standards can be found at the website of The U.S. Small Business Administration.

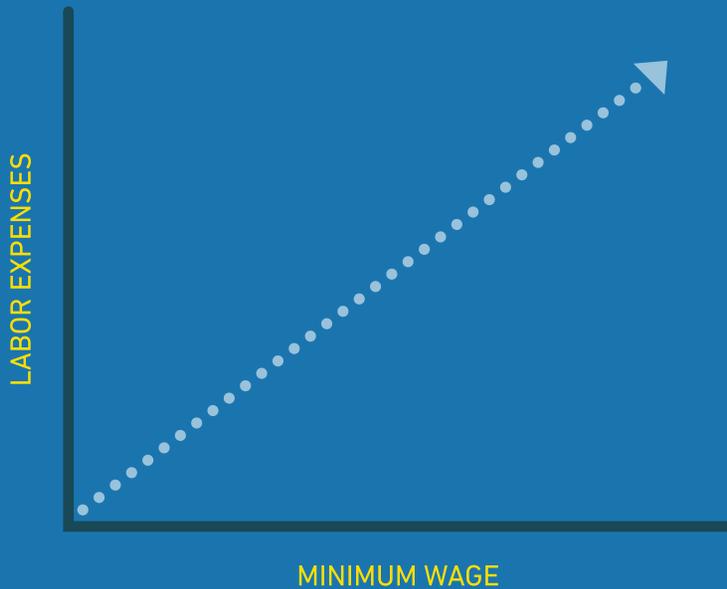
There has been some controversy around the new rules. Some have criticized the decision for expanding small business support into the territory of what might be considered mid-sized business. The SBA argues that companies in some sectors are competing with multi-billion dollar businesses, meaning that government support is justified.

Companies that were on the cusp of qualifying for small business support before the change should look into whether they may now receive federal small business contracts or loans.



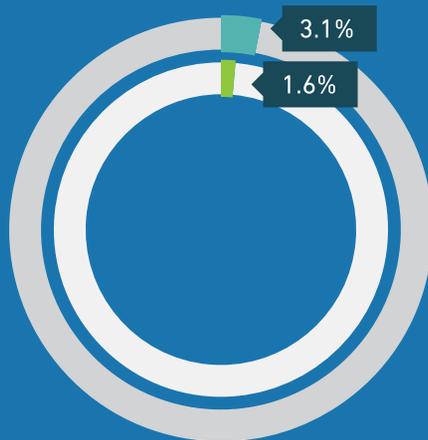
MINIMUM WAGE

With the strong possibility of a higher federal minimum wage looming, small business owners should be aware of the potential consequences—both positive and negative—of such a law passing.



▶ **An increase in the federal minimum wage would cause an immediate increase in the labor expenses of any small business currently paying employees at this rate.**

In the long run, consumer-facing small businesses are likely to see an increase in revenues as the spending power of the least affluent is increased. Client-facing businesses would likely see a corresponding increase shortly thereafter, as per an effect that some analysts have dubbed “trickle-up economics.”



Economists on the other side of the fence maintain that a higher minimum wage has a distortionary effect that can harm the economy and small businesses. The truth of the matter is difficult to ascertain. While it is true that the number of small business establishments grows faster in states with minimum wages higher than the federal average—**3.1 percent compared to 1.6 percent between 1998 and 2001** as per Fiscal Policy Institute data—there is a school of thought that argues that richer states can afford higher minimum wages.

GOVERNMENT CONTRACTS

56 RULE CHANGES



Federal contract set-asides for small businesses exist in order to ensure that large firms aren't able to monopolize the often-lucrative contracts that flow out of the U.S. government. Unfortunately, a number of systemic problems have kept these set-asides from working as intended. In order to help more contracts reach their intended beneficiaries, Congress passed legislation at the beginning of 2013 intended to help small businesses more easily navigate the federal contracting arena.

There were approximately 56 rule changes mandated last January, but a number of these rules have not been adopted by the Small Business Administration. The agency argues that it is implementing the simplest reforms before moving on to more difficult ones.

One particular rule set for revision outlines the share of work done on a government contract that can be sub-contracted out to another company. While in theory the rule is designed to prevent large firms from taking advantage of smaller ones to win government set-asides while doing the majority of the work themselves, in practice it has proven very difficult to implement. Small businesses with these contracts are required to utilize a complicated formula for hours and wages that has been difficult to implement or understand for some small businesses.

HOW THE RULE MAY AFFECT YOU

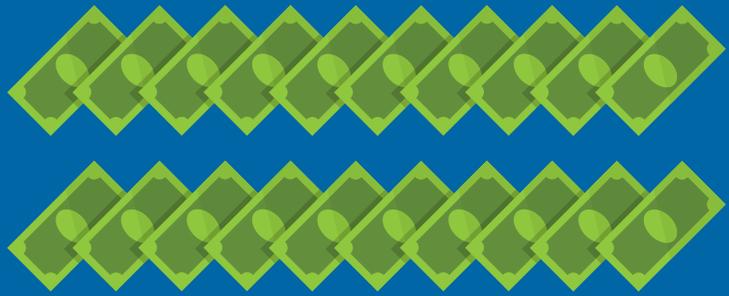
The new contracting rule says simply that small businesses cannot pass on more than 50 percent of the money to other businesses. Unfortunately, the Small Business Administration has still declined to update its contracting regulations to reflect this and other changes.

The SBA eventually will adopt all 56 rule changes, including a change that improves its suspension and debarment process for small business programs, an expansion of the department's mentor-protégé program and a change that will allow similar small businesses to work together in order to compete for additional government contracts.

For now, small businesses in the sector are left in the precarious position of complying with multiple inconsistent provisions, which has led to an increase in compliance questions and significantly higher legal costs.

While the Small Business Administration is adjusting to federal rule changes slowly and cautiously, it will eventually fall into compliance. Small business owners that compete in the government contracting space should remain aware of these changing rules and how the simplified system may benefit them.





 = \$2,500



Fewer than 25 full-time equivalent employees making an average of **\$50,000 per year** or less

Fewer than 10 full-time equivalent employees making an average of **\$25,000 per year** or less

ACA

The Affordable Care Act, better known as “Obamacare” has had a number of effects on small businesses.

Small businesses that have fewer than 25 full-time equivalent employees making an average of \$50,000 per year or less may qualify for the Small Business Health Care (SHOP) tax credit.

In order to qualify, the business must cover at least 50 percent of its full-time employees’ premium costs. Offering coverage to part-time employees or to dependents is not required.

This credit is worth up to 50 percent of a small business’s contribution toward its employees’ premium

costs. It also helps small businesses to offer competitive benefits packages without suffering damage to their bottom lines. Tax-exempt employers are eligible to receive up to 35 percent of their contributions.

The **Small Business Health Care Tax Credit Estimator** will help you to ascertain whether your business qualifies for SHOP credits and how much you can save, but in general, smaller businesses save more. **To qualify for the maximum credit—worth 50 percent of your contribution—your business must have fewer than 10 full-time employees who are paid an average of \$25,000 per year or less.**

HOW SELF-FUNDED INSURANCE COULD PLAY A ROLE

Small businesses that don't qualify for SHOP credits may want to consider self-funded options. While self-funded insurance plans have long been popular among big businesses, there are a variety of risk management products available for small businesses that allow them to take advantage of self-funded options.

Under a self-funded insurance plan, companies collect employee contributions and set aside money that would go toward paying premiums as normal. A benefits administration partner typically works with the business to determine the correct contribution level and budget for a given workforce. When an employee files a claim, the business pays out as though it were an insurer.

While this strategy can lead to short-term losses in years with a lot of claims, a good benefits administrator will outline a plan that will allow for savings over the course of a seven-year period. Stop-loss reinsurance allows businesses to hedge against the risk of a particularly large number of claims or expensive catastrophic claims.



A plan that will allow for savings over the course of a **7 year period**

Self-funded insurance allows businesses to save money that would otherwise go to insurance carrier profits and potentially offer more competitive benefits packages to their employees. Because the business serves as the "insurer," firms with young, healthy workforces in particular can benefit from this strategy.



BONUS DEPRECIATION

The House recently passed legislation that makes permanent one of the so-called tax extenders, which get their name because they routinely expire and are extended by Congress. This may no longer be the case for the bonus depreciation tax credit.

The bill still has to pass the Senate and the White House, and risks veto, as Republicans haven't proposed a way to offset the \$287 billion that it would add to the deficit over the next decade. However, regardless of whether it becomes permanent, the bonus depreciation credit is likely to remain in one form or another for at least the next two years.

This tax credit allows businesses to write off 50 percent of certain kinds of new equipment in the year that they are purchased. Before the introduction of this credit, businesses were forced to slowly write off the value of their equipment as it depreciated, which made it more difficult to invest. However, not all business purchases are eligible for bonus depreciation, and other methods of financing purchases may preclude businesses from taking advantage of this tax credit.



YOUR 2014 TO-DO LIST

Now that you're up to speed with the latest developments on the small business regulatory front, it's time to identify concrete action points that will help to maximize your chances of success.



- **SIZE REGULATIONS:** Review the new size regulations in your field if you are uncertain which category your business fits in. Identifying whether you classify as a small business can help you to discover whether you are eligible for small business loans, grants or government contracts.
- **MINIMUM WAGE:** Keep abreast of legal developments regarding the minimum wage, both in your immediate area and nationwide. Consider preparing for potentially higher labor costs and look for ways that your business can take advantage of increased consumer spending.
- **GOVERNMENT CONTRACTS:** If your business competes for government contract set-asides, make sure that you are currently ready to comply with both old rules and the new rules. Consider contacting the Small Business Administration to urge them to move forward with implementing the new rules.



- **SHOP CREDITS:** Determine whether your business qualifies for SHOP Credits. If so, this may be a viable way to decrease your tax burden.
- **SELF-FUNDED INSURANCE:** Investigate whether self-funded insurance is the right choice for your business. Consider contacting a third-party administrator that is willing to work with your business to determine the best course of action for you.
- **BONUS DEPRECIATION:** Contact your local representative and let him or her know that you support making the bonus depreciation rule permanent. Stay on top of developments regarding this law, and take advantage of the tax savings it offers if possible.

The post-recession economy is full of both great opportunities and potential pitfalls. Navigating this regulatory environment can prove challenging for some small business owners and entrepreneurs, but those who are willing to take the time to familiarize themselves with new developments may find themselves well positioned to succeed.

For more resources on how Zions Bank can help you work smarter in a post-recession America, or to contact a small business advisor, **visit zionsbank.com/business.**

For more information on how your business can work smarter,
visit zionsbank.com/business.

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The LinkedIn logo, consisting of the lowercase letters "in" in white, centered within a teal square.