

Small Business Recovery From COVID-19

_____ Throughout the COVID-19 pandemic, small businesses have suffered due to COVID prevention strategies such as shut downs of nonessential businesses, capacity limits, and curfews. The number of active business owners in the United States plummeted by 3.3 million or 22% over the crucial 2-month window from February to April 2020. The drop in active business owners was the largest on record, and losses to business activity were felt across nearly all industries (Journal of Economics and Management Strategy). Both federal and state governments have enacted various programs to help benefit small businesses during this economic crisis. However small businesses are still struggling to succeed. In May, the number of small business owners in the United States dropped by an additional 15 percent and 8 percent in June. We have seen states continue to propose new policy ideas for small business assistance to help them through these troubling times.

In 2018, California was ranked the state with the highest percentage of small businesses (US Small Business Administration), so I decided to look into what COVID relief programs they were offering to these businesses. Governor Newsom of California has implemented many beneficial small business recovery programs. One particular program that caught my attention was the “main street hiring tax credit”. Essentially, the state of California is offering \$1,000 in tax credits for each employee hired by a small business up to \$100,000 per business. The California Department of Taxes and Fees Administration is in charge of allocating these tax credits. The small business hiring tax credit provides a credit that a small business employer can use to offset their income taxes or their sales and use taxes when filing their tax returns. The tentative credit

reservation is allocated on a first-come, first-served basis. Within 30 days of receiving an application, CDTFA will notify each applicant via email whether a tentative credit reservation has been allocated to them and the amount. Businesses that may qualify for this tax credit must employ 100 or fewer employees as of December 31, 2019.

Additionally, qualifying businesses must have suffered a 50 percent decrease or more in income tax gross receipts (generally, all income less returns and allowances), when comparing second quarter 2020 to second quarter 2019.

Evidence from similar tax credit programs that have been enacted in the past suggests high efficiency in combating unemployment. Research has shown that the WOTC program has increased employment among those struggling to find work. The WOTC (work opportunity tax credit) program aims to reduce long-term unemployment by offering tax credits to businesses that hire within qualified groups (i.e. qualified veterans, qualified ex-felons, or those receiving aid from SNAPs “food stamps” or Long-Term Family Assistance). In 2018, the WOTC program has created job opportunities for 2,204,142 citizens nationwide. Michigan alone issued more than 85,000 WOTC certifications in 2018, ranking our state eighth in the nation in number of WOTC certifications that year. Additionally, the WOTC program is relatively cost-effective since the tax credit is only confirmed once the prospective employee is hired and the economic productivity created by the program suggests that the benefits outweigh the cost of the subsidies/ tax credits. For these reasons, implementing a program similar to California’s “Main Street Hiring Tax Credit” in the state of Michigan could be an effective strategy for reducing unemployment and supporting financially unstable small businesses.

Works Cited

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