



Small Business Bailout Proposal and Analysis

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Executive Summary

The Small Business Bailout Program is proposed to increase small business productivity and reduce unemployment. The program is based on the government funding new hires for small businesses with 1 to 24 employees. Up to 3 employees will be paid for by the government per company with each employee making an average of 12.04 per hour (\$25,000 per year)

There are 4.7 million companies with 1 – 24 employees. If half of the companies take advantage of the program and they each hire on average 1.5 workers, this program can be run at a cost of 20.7 million to tax payers or under \$6,000 per employee. The total funds required are \$88 billion. The government will recover portions of these funds via income taxes on earned wages, taxes on additional business profits and save unemployment costs.

Cost of the Small Business Bailout Proposal	
	(000)
Total Funds Required	\$88,465,331
Income Tax Paid By Employees (15%)	\$13,269,800
Additional Taxable Profits (20%)	\$17,693,066
Unemployment Benefit Savings (26wks/\$400)	<u>\$36,801,578</u>
Estimated Final Annual Cost	\$20,700,888
Based on 3.5 million jobs	

The program can create 3.5 million jobs. With 14.8 million people unemployed today and an unemployment rate of 9.7, this could reduce unemployment to 11.3 Million or 7.4%. If another 500,000 jobs are lost during this time, unemployment would be at 11.8 million or 7.7%.

The proposal is for this program to last for 2 years.

Background

The Unemployment rate in the US has grown over the past 2 years to over 10% in December 2009. This high unemployment rate has dramatic effects on the economy. When unemployment is up, people stop spending. More people are not working so they are not spending. Concern over losing their jobs slows how much people spend. Lower spending leads to lower sales at businesses. Lower income at businesses leads to salary cuts, layoffs, and potentially business closings.

Effect of High Unemployment
Lower Consumer Confidence
Lower Consumer Spending
Lower Sales at Businesses
Lower Income leads to Layoffs
Higher Unemployment
Business Closings
Lower Salaries

The President has discussed Tax Credits for Small Businesses and small businesses are hopeful that a program can be put into place that can help them. Small Business need a program that can stimulate growth, add employees, reduce loses or generate substantial, sustainable profitability.

It is believed that a Tax Credit is not the solution for Small Business. Offering a tax credit for a portion of the cost of a new hire is not enough. Many Small Businesses don't have the cash flow today to support adding additional payroll. Giving a break on taxes paid each quarter will not solve this problem. Small Businesses need additional people today to help them grow, without the additional cost.

The following proposal attempts to address this issue and provide real help for the Small Business owners in America. The program outlines the government paying for new hires at small businesses for a period of 2 years. The target of the program is Small Businesses with 1 to 24 employees. It is proposed that the increased productivity of up to 3 additional employees for companies of this size will provide the best return on investment and keep the program financially viable. The program could generate up to 4.7 million jobs with a potential reduction of unemployment from 9.7% (January 2010) to as low as 6.6% in a single year and maintain this level for year 2. The net cost of the program is estimated to be \$26 Billion or under \$6,000 per employee. The cost of the program is based on the number of people that go to work via the program. The program is scalable. The cost per job (\$5,850) remains the same whether 1 million jobs are created or 4.7 million are created. The program will be administered by each state. Each state already has resources in place for unemployment and job placement.

Proposal Highlights
2 Year Program
Available to Businesses with 1 – 24 employees
Up to 3 employees per small business
Government Pays Employee Salary
3.5 Million Potential New Jobs
Cost per job Under \$6,000
Net Cost of Program \$20.7 Billion per year

Bailout Program Data

It is believed that 3.5 million new jobs can be created at an annual net cost of \$20.7 Billion, or a cost of under \$6000 per employee per year.

It is proposed that the US Government funds up to 3 full time employees for small businesses with 1 and 24 employees. This represents 4,718,151 companies. The average salary for each potential employee is 12.04 per hour.

# of Companies by Business Size 2006		
# of employees per company	# Companies	Cumulative # Companies
1 – 4 Employees	2,875,406	2,875,406
5 - 9 Employees	1,060,787	3,936,193
10 – 14 Employees	428,399	4,364,592
15 – 19 Employees	218,417	4,583,009
20 – 24 Employees	135,142	4,718,151
Source *SBA Employment Data 2006		

If 50% of all these companies take advantage of the program and each company hires an average of 1.5 new employees, 3.5 million new jobs would be created. At an average cost of 12.04 per hour, the total funds required are \$88.5 Billion. We estimate that each of these 3.5 Million employees would pay average taxes of 15% for total revenue back to the government of \$13.3 Billion. Each company would now make additional profits by not having the payroll costs associated with the additional employees. These profits are added to the company's tax return. This may be harder to quantify, so we will use the actual cost it would be to hire 1.5 employees at 25K per year or an extra \$36,000 per year in profit. It is estimated that the average tax bracket for these small businesses is 20%. This equates to \$22.1 Billion of additional taxes paid to the government. Finally, it is believed that the government will save 26 weeks of unemployment for each of the 3.5 million employees. This will save the government \$36.8 Billion. With these savings, the total program cost per year is \$20.7 Billion. The average cost per employee to the government is \$5,850 per employee per year.

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Bailout Program Details

It is proposed that the US Government funds up to 3 full time employees for small businesses that qualify for the program. Qualifications for the program are simple. 1) The company has between 1 and 24 employees. The average salary per employee is 25,000 per year or 12.04/hour. Salaries for positions are based on job descriptions being filled. Clerical, support and entry level positions would be paid between \$8.00 – 11.00 per hour, while more skilled positions such as marketing, bookkeeping, experience salespeople would be paid between 10.00 – 14.00.

The program would use existing state resources. Each state has Unemployment and career placement infrastructure. Using the existing systems in place, this program can be administered. If additional resources are required, this will create new jobs at the state level, which can be funded with this program.

Effect on Unemployment

Unemployment is currently at 9.7%. This represents 14.8 million people out of a total pool of 153 million. With the addition of 3.5 million new jobs, the number of unemployed will be reduced to 11.3 million (assumes Job loses do not outweigh job gains in other sectors). This would result in an unemployment rate of 7.4%. If additional jobs are lost in the country, for example 500,000 less Jobs, the program would net out at 11.7 million unemployed with an unemployment rate of 7.7%.

Intangibles

Increased Consumer Spending – Lower unemployment and more people working will add more consumers and increase consumer spending. This will create a multiplier affect adding more sales to other businesses that will increase profits and add more jobs.

Sales Tax – More sales will create more sales tax revenue for cities and counties.

Saving Jobs of Small Business owners – Small businesses that would have gone under, can now stay open, saving additional jobs that would have been lost otherwise.

Conclusions

It is proposed that there is a cost effective way to reduce unemployment and stimulate the economy by funding new jobs for small businesses. Data and analysis provided supports a cost effective solution. We encourage economists and government officials to review the program. If you read this proposal and think it is something our government should pursue, please forward it on to:

Family	Friends	US Senators	US Congressmen
Local Media	National Media	YouTube	Facebook
Twitter	Small Business Owners	Blog Sites	everyone