Jill Bommarito, Founder & CEO of Ethel's Baking Company and member of the *10,000 Small Businesses Voices* National Leadership Council, from Shelby Township, MI testifies before the House Small Business Committee.

Bipartisan Policy Center

Goldman Sachs 10,000 small businesses VOICES

The Small Business Policy Playbook

WINNING STRATEGIES TO DRIVE ECONOMIC GROWTH

By Michelle Kumar & Jason Wiens

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STAFF

Michelle Kumar
Senior Policy Analyst

Jason Wiens
Senior Advisor

HUMAN CAPITAL PROGRAM

The Bipartisan Policy Center's Human Capital Program is working to ensure that every American, from early childhood through the classroom and career, has the knowledge, skills, and tools they need to access their full potential.

ACKNOWLEDGMENTS

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Gwen Jimmere, Naturalicious, Canton, MI

Executive Summary

Supporting small businesses is key to creating a strong, growing economy that provides widespread opportunities for business owners and workers.

The Small Business Policy Playbook: Winning Strategies to Drive Economic Growth, produced in partnership with Goldman Sachs *10,000 Small Businesses Voices*, builds on past analysis from the Bipartisan Policy Center to give lawmakers a bipartisan guide to supporting these businesses.

To accelerate progress in 2025 and 2026, the playbook identifies past bipartisan legislation that, although they did not become law, can guide future action. It also highlights state and local initiatives as guides for new federal policy.

We have categorized small business owners' perspectives in three sections: Workforce, Cost of Doing Business, and Innovation and Opportunity.

WORKFORCE

To help small businesses compete with larger companies for talent and retain employees, lawmakers should consider bipartisan actions to increase investment that lowers the cost of offering child care, encourages upskilling, supports saving for retirement, and provides other employee benefits.

Featured Bipartisan Workforce Recommendations

Workplace Benefits	Child Care	Skills and Training for Workers
• Amend the retirement benefit startup credit for small businesses. • Enhance the 45S tax credit.	• Expand the Employer-Provided Child Care Credit (45F). • Delink the Dependent Care Assistance Program and the Child and Dependent Care Tax Credit.	• Encourage Small Business Administration (SBA) resource partners to participate in sector partnerships. • Subsidize the cost of workforce-related training and certification.

COST OF DOING BUSINESS

Runaway costs can restrain small businesses' growth and even force them to close. To lower costs and increase the likelihood that small businesses can succeed, the playbook outlines ways to make capital more accessible and affordable and that simplify tax and regulatory compliance.

Featured Bipartisan Cost of Doing Business Recommendations

Capital Affordability	Tax Policy	Regulation
• Revamp technical assistance to address microloans and fintech financing. • Expand Small Business Investment Companies (SBICs).	• Reinstate immediate and full R&D expensing. • Maintain business tax incentives, such as Section 179 expensing, that have a track record of success.	• Nominate and confirm a chief counsel to lead SBA's Office of Advocacy. • Strengthen existing procedures to account for and mitigate regulatory costs.

INNOVATION AND OPPORTUNITY

To better maximize the potential of small businesses, the playbook recommends ways to capitalize on new efficiency-boosting technologies and expand to new markets.

Featured Bipartisan Innovation and Opportunity Recommendations

Digital and AI Tools	Government Procurement	Manufacturing and Exporting
• Ensure resource providers are equipped to provide training and guidance on digitalization and AI. • Promote AI literacy skills and education for small businesses.	• Set goals for new entrants. • Hold agencies accountable and encourage improvement.	• Enhance small manufacturers' access to affordable capital via 504 and 7(a) loans. • Improve Small Business Investment Companies' ability to invest in small manufacturers.

Supporting small businesses cuts across congressional committees and government agencies. Following these and other recommendations in the playbook will produce policy reforms that comprehensively support small businesses and strengthen the economy.

Susan Walker, Walker Bookstore, Chandler, AZ

Introduction

Members of Congress and agency officials have a full agenda to grapple with: expiring tax provisions, out-of-date education and workforce legislation, rapidly evolving artificial intelligence technology, retirement security enhancements, and more. Small business concerns are a throughline in each of these issue areas.

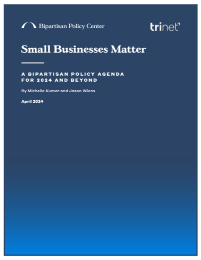
Small businesses—ranging in size from one to 500 employees—are a significant piece of the economy. They employ 59 million workers (nearly half of the private-sector workforce) and predominate in many sectors vital to local economies, such as retail and construction.[1]

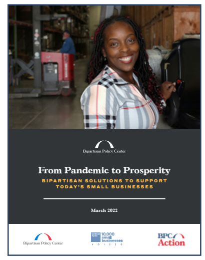
Produced in partnership with Goldman Sachs *10,000 Small Businesses Voices*, this playbook is designed to help federal policymakers support small businesses across multiple issue areas to build a strong, growing economy with widespread opportunities. The analysis and policy guidance are also relevant for state and local leaders.

The playbook builds on past Bipartisan Policy Center analysis of small business priorities and policymaking principles articulated in BPC's 2024 *Small*

Businesses Matter report, in addition to three other *Voices*-supported reports. The playbook also highlights state and local models to inform efforts across the country. The views and experiences of small business owners inform all the findings and recommendations.

Small Business Policy Resources





Policy guidance on nine issue areas is organized into three themes: Workforce, Cost of Doing Business, and Innovation and Opportunity.

> **Workforce** | Benefits, job training and certification programs, as well as access to quality child care, are crucial workplace supports that enable small business owners, employees, and their families to thrive. Small businesses face hiring and retention challenges when they cannot afford to offer their workers competitive benefits and find qualified workers. Small businesses win when workers possess needed skills, and when business owners can meet their employees' needs by offering competitive benefits that support their continued participation in the workforce.
>
> **Cost of Doing Business** | Small businesses are a key driver of economic growth. But businesses, especially small businesses, struggle to maintain a profit margin and afford financing due to rising costs, as well as to complex tax laws and regulations. Small businesses win when the costs of doing business are contained, predictable, and fair, allowing them to secure affordable financing and focus on growth—not navigating tax and regulatory complexity.
>
> **Innovation and Opportunity** | Small businesses propel U.S. global leadership and economic resilience, but they face difficulties in accessing the new markets and technologies they need to grow because of a lack of capacity and cost. Small businesses win when policy supports the acquisition of innovative tech, expands access to federal contracting, and facilitates product development and investments in manufacturing.

Past bipartisan efforts have laid a strong policy foundation for new and returning policymakers to build on. If they account for small businesses' interests as they pursue a wide swath of issues during this legislative cycle, they will be supporting this critical engine of the economy.

Lori Pasewaldt, Olympic Transportation, Charlotte, NC

Workforce

Ensuring that small businesses have enough workers, and that those workers are prepared and are supported with training and benefits

WORKPLACE BENEFITS

State of Play

Workers primarily receive benefits through their employer. Small employers often have fewer resources to provide and administer complex health insurance, paid leave, and retirement benefits than larger companies. This leads to challenges in hiring and retention. Policymakers have continually attempted to address employers' frustrations associated with offering and administrating these benefits, but more work is needed.

Health insurance was a major topic of discussion for legislators in the late 2000s. The 111th Congress passed the Patient Protection and Affordable Care Act, and in subsequent years lawmakers clarified the administration of small business health insurance. More recently, bipartisan initiatives in the 117th and 118th Congresses reduced the complexity and cost of administering retirement and paid leave benefits.

The Setting Every Community Up for Retirement Enhancement 2.0 (SECURE 2.0) Act, which President Biden signed into law in 2022, included provisions to help small employers provide retirement benefits.[2] SECURE 2.0 improved upon its 2019 predecessor by providing small businesses with a retirement plan startup credit, which offsets up to 100% of the costs of launching a plan for the first three years the plan is offered.[3]

Members of Congress formed the House Bipartisan Paid Family Leave Working Group to identify other opportunities for bipartisan solutions. Supported by BPC, this working group seeks to facilitate discussion and find pragmatic solutions to meet the needs of businesses and workers.[4] The working group released a policy framework in 2024 that addresses employers' concerns and provides recommendations for how small businesses can provide paid leave benefits.[5]

The Task Ahead

Providing health insurance, paid leave, and retirement benefits makes small businesses competitive and attractive places to work. In September 2024, 64% of small business owners attributed hiring challenges to competition with larger employers on pay and benefits.[6]

Federal policymakers have the opportunity to build on the foundation of past legislation, such as SECURE 2.0, to close remaining gaps for small business owners.

What to Watch: State Experimentation in Flexible and Voluntary Employee Benefits Programs

Small businesses want legislation that reduces complexity, encourages flexibility, and lowers costs so they can offer high quality benefits to bolster their workforce. State-level initiatives showcase tested policy options for federal lawmakers.

- The Virginia state Chamber of Commerce launched the Multiple Employer Welfare Agreement to support small employers with fewer than 50 workers. The health insurance consortium aims to lower costs for employers and increase access for employees.[7]
- New Hampshire is one of nine states that recently passed laws allowing the provision of voluntary paid family leave insurance plans.[8] However, New Hampshire differs by offering interested employers a tax credit covering 50% of their premium costs and provides flexibility in a plan's design.[9] Employers can also establish cost-sharing agreements with employees as they see fit. Eighty percent of employers purchasing plans had 50 or fewer employees, indicating interest from the small business community.[10]
- Sixteen states have enacted "automatic IRA" programs that provide employers access to payroll-deducted retirement plans; some systems make it as easy as forwarding payroll information to the state.[11] These programs aim to overcome the obstacles of cost and complexity that employers face. Plans in California, Illinois, and Oregon have increased the likelihood that an employer will offer a more traditional 401(k)-type plan.[12]

Bipartisan Opportunities for Progress

Amend the Retirement Benefit Startup Credit for Small Businesses

Businesses with 50 or fewer employees get a 100% tax credit for starting a retirement plan, while those with over 50 employees receive a 50% credit. This difference incentivizes employers to retain fewer than 50 employees to manage costs, even if they need to hire. Congress should amend the credit to include a phaseout approach that would avoid discouraging hiring.

Enhance the 45S Tax Credit for Paid Leave

The 45S Employer Credit for Paid Family and Medical Leave is set to expire at the end of 2025.[a] Making 45S permanent, allowing employers to apply it toward insurance premiums, and including flexible and voluntary provisions for small businesses would help more small employers provide paid leave.

Include Nonprofits in SECURE 3.0

Nonprofits are currently ineligible for retirement tax credits because they do not pay income taxes. Updating these tax credits to offset payroll taxes would help small nonprofit employers compete for talent.

Establish Employer Pooling for Paid Leave

Voluntary and flexible employer pools would distribute costs among multiple businesses, helping more firms offer paid leave benefits to their workers.

Establish Voluntary or Flexible Paid Leave Programs

Whether at the state or federal level, flexibility and voluntary opt-in programs help small businesses manage costs while still helping them compete for talent.

Empower Businesses with Payment and Pricing Tools

Third-party benefit administrators are often a necessity to help businesses navigate and offer benefits. The departments of Labor, Treasury, and Health and Human Services can issue guidance on existing laws to help both third-party administrators and employers meet their fiduciary responsibilities. They can also clarify the "gag clause ban" to encourage vendors to share relevant plan data with employers. Boosting transparency would help lower employer health care costs by closing potentially costly loopholes and ensuring proper plan adoption.[13]

Learn More About Employer-Sponsored Insurance (ESI)

ESI is the foundation for the nation's public-private health system, but rising health care costs continue to put pressure on employers seeking to maintain the same level of benefits. Despite ESI being the dominant source of coverage, in-depth discussion of how to improve the employer system is lacking.

Read more: *Improving and Strengthening Employer-Sponsored Insurance*.

Create a Benefits Resource Guide for Small Businesses and Improve Marketing

Creating a benefits resource guide for small businesses would reduce confusion and increase participation in new benefits programs.

[a] The number of small businesses claiming the 45S tax credit is incredibly low. For many business owners, the current language is unhelpful or they are unaware of the credit's existence. Learn more about 45S in BPC's explainer ***The Paid Family and Medical Leave Business Tax Credit: What is it and how can employers use it?***. March 2022.

CHILD CARE

State of Play

About one-third of small business owners say their employees have been forced to cut work hours or forgo work entirely because of the cost or unavailability of child care.[14] Responding to challenges like these, recent bipartisan congressional efforts have aimed to increase the supply and affordability of child care, with several focused on how the Small Business Administration (SBA) could increase support for small business child care providers.

- H.R. 2602 and S. 673, the Small Business Child Care Investment Act,[b] would have allowed nonprofit child care providers that qualify as small businesses to participate in SBA loan programs. The Senate Small Business and Entrepreneurship Committee approved this bill in July 2023 on an 18-1 vote.
- H.R. 6156, the Child Care Small Business Insight and Improvement Act,[c] would have expanded SBA's role in supporting for-profit child care providers. It passed the House Small Business Committee 23-0 in January 2024.

Other bipartisan bills took a broader approach, including by seeking to expand benefits that offset the cost of child care. Doing so would particularly help small businesses: 66% said being able to offer a child care benefit to employees would have a positive impact on talent recruitment and retention.[15]

- S. 4874, the Child Care Availability and Affordability Act,[d] would have increased the size of the Child and Dependent Care Tax Credit (CDCTC), made the credit refundable, allowed taxpayers to benefit from both the CDCTC and the Dependent Care Assistance Program (DCAP), and increased the maximum employer-provided child care credit (45F) to $600,000 for small businesses.
- S. 5254, the Child Care for American Families Act, proposed an even greater expansion of the 45F credit, with higher credit amounts for small businesses and firms located in rural areas.
- H.R. 4571, the Child Care Investment Act, would have doubled the amount of money that taxpayers could save in a tax-exempt DCAP, expanded the 45F credit, and made the CDCTC refundable.

The Small Business Perspective:
"As a child care provider, I play a crucial role in supporting the labor market by enabling working parents to provide for their families. Ironically, my greatest challenge has been finding qualified workers to sustain my own business. Through our partnership with the Department of Labor, we have been able to offer apprenticeships for our workers, empowering them with the skills they need to thrive in this vital industry."

- CHILD CARE PROVIDER IN BRENTWOOD, NH

The Task Ahead

Small business owners understand how important it is to help their employees meet their child care needs, but costs are high and some policies are only viable for larger companies.[16] As a result, fewer than 10% of workers at firms with fewer than 100 employees (representing about 99% of all small businesses) had access to child care benefits in 2023.[17]

Without good solutions, small businesses will continue to struggle to hire and retain workers, will see productivity suffer when workers reduce hours

[b] BPC Action endorsed H.R. 2602 and S. 673 in the 118th Congress.
[c] BPC Action endorsed H.R. 6156 in the 118th Congress.
[d] BPC Action endorsed S. 4874 in the 118th Congress.

to care for their children, or will lose workers to larger businesses that can offer child care benefits.[18]

During the 119th Congress, members have an opportunity to build upon past consensus and pass policies that mitigate small businesses' child care challenges.

Bipartisan Opportunities for Progress

Expand the Employer-Provided Child Care Credit (45F)

The 45F credit offsets employers' costs associated with providing or subsidizing child care for their workers. Businesses must spend $600,000 to receive the maximum credit of $150,000. Increasing the maximum credit and enhancing the credit rate for small businesses would make this underutilized credit more attractive.[e]

Simplify Joint Contracting with Child Care Providers

Making it easier for employers to claim the 45F credit for securing child care for their employees via a consortium would further increase the credit's incentives for small businesses.

Delink DCAP and the CDCTC

DCAPs are an employer-sponsored benefit for working parents with caregiving expenses, including child care. The CDCTC helps working parents offset a portion of eligible child care costs. Both are valuable, but when they are used together the CDCTC decreases, in some cases to zero.[19] Allowing employees to claim the full CDCTC, regardless of employer contribution, would help make child care more affordable and accessible.

Index the CDCTC to Inflation and Make It Refundable

Indexing the maximum amount of expenses eligible for the credit to inflation and making the credit refundable would help working parents offset a greater portion of their child care expenses and allow more workers to benefit from the credit.

Strengthen Support for Nonprofit Child Care Providers

Allowing nonprofit child care providers that qualify as a small business to access SBA-guaranteed loans would help these providers access capital to maintain and expand services in their community.

Market and Expand Apprenticeship Programs for the Child Care Workforce

Congress can provide greater support to states and communities to ensure child care apprenticeship programs are sustainable and scalable. States are also encouraged to include child care workforce development in their Workforce Innovation Opportunity Act (WIOA) state plans.

The 'Workforce Behind the Workforce'

Nearly all child care providers are small businesses.[20] Many of these businesses experience challenges building and maintaining a workforce with core competencies and adequate compensation.

Read more: *Top-Down, Bottom-Up: Building a State Child Care Center Workforce*.

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e Employers' usage of the 45F credit has been low throughout its existence. See the Government Accountability Office report, *Employer-Provided Child Care Credit: Estimated Claims and Factors Limiting Wider Use*, February 2022.

Chris Fluharty, Fluharty Construction, Cleveland, OH

What to Watch: State Cost-Sharing and Provider Subsidy Programs

Several states are experimenting with novel approaches to address child care challenges. Michigan and Kentucky have created programs that split the costs of child care between the employer, worker, and state, with each paying one-third of the price.[21]

Early evidence from Michigan's Tri-Share program, which is open to businesses of all sizes, suggests the approach is yielding positive outcomes.

- **More Businesses Provide Child Care Support:** More than 90% of participating employees said their employer had not provided financial support for child care before Tri-Share.[22]
- **Businesses Retain Workers:** 63% of participating employers said the program has helped them retain employees.[23]
- **Businesses Expect to Be More Attractive:** 69% of participating employers believe the program will help them recruit workers.[24]

Tri-Share also includes a facilitator role to help businesses and employees navigate the child care system. Facilitators help families find care and handle administrative tasks so that businesses are not burdened with these extra responsibilities and costs.[25]

Some states have experimented with programs that help child care workers stay in the workforce by subsidizing the costs they pay to have their own children in care.[26]

SKILLS AND TRAINING FOR WORKERS

State of Play

As of October 2024, 35% of small businesses had a job opening they could not fill, and 87% of those trying to hire said there were few or no qualified applicants.[27] Sector partnerships aim to address these challenges.

Sector partnerships connect employers in the same industry with education, training, labor, and other community organizations to close gaps in skills.[28] These public-private partnerships can also help retain workers.[29] Alabama, Maryland, and New Jersey are among the states that have implemented sector partnerships to address workforce skills gaps and help small businesses with hiring and retention.[30]

At the federal level, S. 4580, the Pathways to Prosperity Act of 2024, introduced in the Senate, would have provided federal support for local initiatives like those mentioned above. Other legislation introduced in the 118th Congress would have connected small businesses with technical and vocational institutions and provided resources for work-based learning and apprenticeship programs.[f]

The Task Ahead

Small businesses employ nearly half of the private-sector workforce and are on the frontlines of figuring out how to amend training and development in response to new technologies and skill demands. However, upskilling or reskilling workers, or even hiring new employees, costs small businesses time and money.

Lawmakers can bolster small businesses' ability to compete with larger firms and support workers who are looking to learn new skills or join the workforce by expanding training and development programs.

BPC is helping further bring the small business perspective to these policy conversations as part of our Commission on the American Workforce. BPC is gathering national leaders and experts to draft a national strategy and actionable recommendations to address what we see as an urgent human capital challenge. Our commission will build bipartisan solutions to ensure every American has access to economic opportunity, so our country remains a global leader.

What's Working: Bipartisan Sector Partnerships

California developed the Employment Training Panel (ETP) in 1982 to help employers update employees' skills. This public-private partnership brings businesses, unions, and lawmakers together to help meet workforce needs by providing funding to businesses for upskilling their workers. Employers fund the program through a 0.1% payroll tax on the first $7,000 of each employee's taxable wages, which state legislators established at the same time.[31] The tax is mandatory for any employer paying into unemployment in its first year as an employer and then so long as it has a positive unemployment insurance reserve account balance.

Studies have found that ETP has positively affected business sales and helped small businesses hire more workers and increase revenue by formalizing training systems.[32] The program's longevity, permanence across Republican and Democratic governorships, and impact demonstrate the benefits—particularly to small businesses—of policies that invest in worker training through sector partnerships.

[f] BPC Action endorsed H.R. 1730, S. 936, and H.R. 1541 in the 118th Congress.

Bipartisan Opportunities for Progress

Encourage SBA Resource Partners to Participate in Sector Partnerships

A better coordinated and widespread involvement of local SBA resource partners—such as SCORE and Small Business Development Centers (SBDCs)—in sector partnerships would help small employers better coordinate with community organizations to alleviate worker shortages and improve employee retention. These resource providers can also educate business owners on how to establish work-based learning and apprenticeship programs.

Offset the Direct and Indirect Costs of Workforce Readiness

Offsetting the cost of worker licensing and certification requirements will help small businesses cover costs, retain a prepared workforce, and incentivize hiring.

Zoom Out: What Is the Workforce Innovation Opportunity Act?

WIOA is an expansive piece of bipartisan legislation meant to improve the workforce system and strengthen coordination among workforce, education, and human service programs.

This legislation, which was signed into law in 2014, organizes federal workforce programs, funds state and local workforce development services, and establishes common outcomes measures. Since 2020, Congress has allocated around $5 billion to fund WIOA programs each year through temporary extensions.

WIOA's provisions for local grants and programming impact small businesses by helping them find, train, and retain workers within their communities. WIOA American Job Centers are also authorized to partner with SBA employment and training programs.

The 113th Congress authorized funding for WIOA through fiscal year 2019. It has been overdue for reauthorization since 2020. Many members of Congress are eyeing 2025 as the year for full reauthorization.

With a new slate of legislators in the 119th Congress, 2025 discussions around WIOA reauthorization could include consideration of administrative changes to bolster flexibility in WIOA programming; adjusting the balance of funding for skills training versus employment services; ensuring resources can meet investments from the CHIPS and Science Act of 2023; further promoting alignment between workforce education programs and workforce needs; and strengthening accountability and evaluation.

Sources: Congressional Research Service, *The Workforce Innovation and Opportunity Act and the One-Stop Delivery System*; National Governors Association, *Education, Workforce and Community Investment Task Force FY25 Appropriations Priorities*.

Aimee McQuilkin, Betty's Divine, Missoula, MT

Cost of Doing Business

Fostering an environment that enables small businesses to thrive

CAPITAL AFFORDABILITY

State of Play

Congress and the Trump administration in 2020 made hundreds of billions of dollars in emergency loans available to help small businesses weather COVID-19 disruptions.

Although this assistance proved critical to keeping small businesses afloat, it also drew attention to longstanding gaps in capital access. Closing these gaps for entrepreneurs and small business owners of color, women, and those living in rural communities was a priority for lawmakers and the Biden administration.

SBA officials created programs and expanded existing ones to get capital to more businesses that needed it.[33] House members worked to reduce regulation on how small businesses raise capital by pursuing policies that build on the Jobs Act of 2012.[34]

Although policymakers have made strides in improving access to financing, the Federal Reserve's decision to raise interest rates to combat inflation increased small businesses' costs associated with competing, succeeding, and growing in the postpandemic era.[35] When the Fed stopped raising interest rates in July 2023, the effective federal funds rate was at its highest point since 2007.[36] Seventy-seven percent of small employer firms noted the increasing cost of goods, services, and wages as a challenge.[37]

The Small Business Perspective:

"Capital is the lifeblood of any business, but unfortunately it is getting more and more challenging to access and afford a loan. If policymakers in Washington want to support small business formation and growth, especially for entrepreneurs of color, they should do whatever they can to improve access to affordable capital so that we can grow our businesses and support our communities."

- FOUNDER OF THREE FAST-CASUAL RESTAURANTS IN BALTIMORE, MD

The Task Ahead

Obtaining external capital sounds straightforward: apply for a loan, meet the lender's criteria, and receive the money. In practice, lending options can be scarce—particularly for rural business owners.[38] Access to capital for rural small businesses has narrowed: 40% of rural counties lost bank branches between 2013-2017. The number of banks in these communities further fell by 4.2% from 2019-2023.[39]

For minority business owners, a high credit risk label due to systemic difficulties affects their ability to obtain financing and makes any financing received more costly due to higher interest rates or poor loan terms.[40] In 2023, Black- and Hispanic-owned firms were more likely to have a medium or high credit risk compared with their white-owned counterparts.[41]

Expanding access to credit is only half the battle. Policymakers must also address the overall cost of financing. The Federal Reserve began cutting interest rates in September 2024, providing some relief, but the impact of inflation and higher interest rates are still felt.[42] In this environment, policymakers can help by zeroing in on the cost of capital while continuing to expand access by addressing persistent barriers, especially as it relates to a business owner's geographic location, race, gender, and other demographic factors.[43]

What's Working: Federal Initiatives Targeted at Local Investment

The State Small Business Credit Initiative (SSBCI), in both iterations 1.0 and 2.0, has helped more small businesses access capital by providing funding for localities to invest in job creation and entrepreneurship, and by improving technical assistance to get business owners "credit ready." Concentrated and tailored programs like SSBCI also contribute directly to increased lending to minority entrepreneurs and underserved communities.[44]

For example, SSBCI has advanced the competitiveness of small manufacturers in Minnesota, provided microloans to underserved communities in Utah, developed a network of lenders in rural Montana, provided loans to entrepreneurs in Kansas, and provided funding for three community development financial institutions in Mississippi, among other accomplishments.[45]

Bipartisan Opportunities for Progress

Revamp Technical Assistance to Address Microloans and Fintech Financing

Updating lists of private lenders or government-backed financing, informed by better intra-agency coordination, would help more small business owners access the capital they need.

Expand Small Business Investment Companies (SBICs)

SBICs are privately owned firms that leverage SBA-backed capital to make investments in small businesses. Expanding the scope of this program, including through new designations targeting underserved communities, would help more small businesses get funding to grow.[g]

Monitor and Evaluate the Expansion of Small Business Lending Company (SBLC) Licenses

In 2023, SBA granted three new SBLC licenses in an effort to increase small businesses' access to lenders—particularly for businesses in underserved communities.[h] SBA should conduct rigorous data collection and agency analysis to determine the efficacy of including additional lenders.

Evaluate Lenders' Use of Technological Tools

Adopting digital tools can streamline and enhance the financing process for both the lender and applicant. Additionally, adoption of digital tools can enable traditional lenders to increase access to capital for minority and underserved entrepreneurs by incorporating alternative data in their lending processes.[46]

Small Business Capital Deep Dive

The small business financial ecosystem is complex. Given the many providers of capital and the numerous products, finding the right capital at the right cost is difficult. This ecosystem is also continuously evolving as new lenders, markets, and technologies emerge. Persistent gaps in financing across demographic and geographic lines are widened by the foundational complexity of the ecosystem.

Read more:

Small Business Financing: Where are the Gaps?

The Role of Government in Small Business Finance

Small Businesses Matter: Increasing Small Business Access to Capital in the Digital Age

g BPC Action endorsed H.R. 3717 and S. 1157, the Microcap Small Business Investing Act, and H.R. 5333 and S. 4759, the Investing in All of America Act, which would increase capital for small businesses in rural and underserved areas by creating a new SBIC license and exempting these investments from leverage caps.

h SBLCs are SBA-authorized, nondepository lending institutions that make 7(a) loans nationwide for up to $5 million per small business.

TAX POLICY

State of Play

The 2017 Tax Cuts and Jobs Act (TCJA) ushered in major changes to individual and corporate taxes. Some of these changes, such as the 21% corporate rate, are permanent, while others, such as the 20% pass-through deduction, expire at the end of the year.

Although most TCJA changes took effect immediately, one longstanding business deduction for R&D expenditures changed in 2022, creating confusion.[47] Since 2022, businesses have had to amortize, or spread out, their R&D deductions instead of immediately deducting them as before.

Republicans and Democrats viewed this change as detrimental to small businesses, in part because amortization can create liquidity problems, and amortization increases the cost of investing in R&D.[48] More than half of House members cosponsored bipartisan legislation last Congress to end the amortization of R&D expenses and return to full and immediate expensing.[i] The bipartisan Tax Relief for American Families and Workers Act, which passed the House but not the Senate, would have also restored immediate expensing.[j]

These debates are a prelude to the tax reform negotiations that will take place during the 119th Congress as lawmakers consider what to do with expiring TCJA provisions.

The Task Ahead

Higher business taxes can have a disproportionate impact on small businesses; 80% of small employers say the current tax code favors big over small businesses.[49]

i As of November 26, 2024, 118 Republicans and 105 Democrats cosponsored H.R. 2673, the American Innovation and R&D Competitiveness Act, which would have eliminated the five-year amortization requirement for R&D expenditures. In the Senate, 22 Republicans, 19 Democrats, and two Independents cosponsored similar legislation: S. 866, the American Innovation and Jobs Act.

j H.R. 7024 passed the House on January 31, 2024, on a 357-70 vote. It failed to advance in the Senate.

Tax compliance can also be a significant challenge, especially for the smallest businesses that have fewer resources to hire the accounting expertise needed to navigate tax complexity. This issue puts them at a comparative disadvantage relative to larger firms.[50] In fact, 64% of small business owners say the administrative burden of the federal tax code is significant.[51]

Beyond tax complexity, small businesses also confront challenges associated with tax uncertainty. A constantly changing tax code can complicate business planning and impose additional costs as businesses spend time and resources to understand and adjust to tax changes.

In addition to addressing fundamental questions about tax rates and expenditures, members of Congress have an opportunity to also address the complexity and certainty challenges that disproportionately weigh on small businesses.

The Small Business Perspective:
"At our company, we drive innovation by investing in research and development. We need a tax system in America that encourages developing and adopting new technologies by allowing immediate R&D expensing. Furthermore, we need a tax code that is consistent and transparent. A tax code that is ever-changing and overly complicated will hold back small businesses like ours from reaching their potential."

- CEO OF AN ENGINEERING DEFENSE CONTRACTING FIRM IN VIRGINIA BEACH, VA

Consistency in the Tax Code: Section 179

Since 1958, Section 179 of the Internal Revenue Code has allowed businesses to fully and immediately deduct at least some of the cost of new and used qualified assets the same year businesses invest.[52] Doing so lowers the overall cost of investment.

The Tax Cuts and Jobs Act doubled the Section 179 allowance and indexed it to inflation. The maximum expensing allowance phases out once businesses surpass a certain threshold for investments ($3.05 million in 2024), resulting in small businesses receiving a larger proportional benefit from the deduction than larger firms. Businesses with less than $10 million in total business receipts in 2021 claimed more than 80% of these deductions.[53]

Although the Tax Cuts and Jobs Act made these changes permanent, lawmakers may seek to increase the limit on expensing. The Tax Relief for American Families and Workers Act of 2024 would have made this change. If this expansion does not happen, small business owners can expect no changes in their ability to expense their assets.

Bipartisan Opportunities for Progress

Reinstate Immediate and Full R&D Expensing
Allowing businesses to deduct the full amount of R&D expenditures the same year the costs were incurred will restore a familiar and popular deduction, lower the cost of investing in R&D, and improve cash flow.

Maintain Business Tax Incentives with a Track Record of Success
Keeping longstanding provisions of the tax code (such as Section 179 expensing) means small business owners can focus on growing their businesses—not learning about and complying with tax changes.

Prioritize Certainty in the 2025 Tax Debate
Avoiding temporary changes in the tax code can reduce tax uncertainty and lower small businesses' tax compliance costs over time.

REGULATION

State of Play

Like taxes, regulations can affect small businesses in disproportionate ways, leading to higher compliance costs.[54] The National Association of Manufacturers calculated that businesses with fewer than 50 employees incurred regulatory costs of $14,700 per employee in 2022, compared with $12,200 for companies with 100 or more employees.[55]

The House of Representatives passed H.R. 4668, the POST IT Act in 2023, which would have centralized information about federal rules by requiring agencies to post follow-up guidance for small businesses on SBA's National Ombudsman's website. The bill sought to alleviate small business owners' uncertainty and confusion about regulations, thereby easing their ability to comply.

Although the POST IT Act did not become law, bipartisan support for its passage is an indicator that Republicans and Democrats can find common ground on regulatory issues.

The Task Ahead

Small business owners say they are spending more time or resources on completing licensing, compliance, or other government requirements than they did in 2020.[56] Both political parties recognize the disproportionate effects that regulations can have on small businesses, creating opportunities for bipartisan cooperation.

Strengthening existing federal entities that work to mitigate small businesses' regulatory costs (e.g., the SBA's Office of Advocacy), as well as enhancing laws designed to account for small businesses in agency rulemaking, might be places for bipartisan progress in the 119th Congress and the new administration.

Bipartisan Opportunities for Progress

Nominate and Confirm a Chief Counsel to Lead SBA's Office of Advocacy

The SBA's Office of Advocacy—an independent office charged with representing the interests of small businesses in the federal regulatory process—has been without a Senate-confirmed chief counsel since 2017.[57] Nominating and confirming a chief counsel would strengthen the ability of this watchdog to mitigate small businesses' regulatory costs.

Enhance Existing Procedures to Account for and Mitigate Regulatory Costs

There were more than two dozen instances in the 117th Congress when the SBA's Office of Advocacy cited federal agencies for not complying with the Regulatory Flexibility Act.[58] Strengthening the Office of Advocacy's ability to ensure the small business perspective is included in agency rulemaking would ensure that regulations better account for their impact on small businesses.

Improve Communication About Regulations

SBA and its resource partners can help small businesses understand and comply with regulations by providing industry-specific and easy-to-understand compliance guides.

What to Watch: The Regulatory Flexibility Act

The Regulatory Flexibility Act (RFA) of 1980 requires federal agencies to account for the effects of regulations on small businesses and to consider regulatory alternatives if they have a "significant economic impact" on a "substantial number" of small businesses.[59]

The Regulatory Flexibility Act gives the SBA's Office of Advocacy responsibility for monitoring and reporting on federal agency compliance with the law's provisions.[60] The Office of Advocacy holds roundtables with small business owners and federal regulators, trains agency officials on how to comply with the RFA, and submits comment letters to regulatory agencies. These efforts produce regulatory cost savings. In 2023, the Office of Advocacy reported saving small businesses $91.3 million.[61]

By requiring consideration of small businesses and empowering an independent office to work with government leaders, regulatory costs can be lower than they otherwise would be. Some policymakers believe that cost savings could be even greater for small businesses if the RFA was strengthened, including by limiting agencies' ability to sidestep economic impact assessments.[62] Whether to amend the Regulatory Flexibility Act—and how—is one regulatory issue worth watching in the 119th Congress.

BPC's *Making Regulation and Research Work for Small Business* highlights areas of bipartisan agreement regarding the RFA and the functions of the Office of Advocacy.

Ceata Lash, PuffCuff, Marietta, GA

Innovation and Opportunity

Supporting small business growth through technology adoption, procurement, and exporting

DIGITAL AND AI TOOLS

What Are AI tools?

AI tools are a type of digital tool—any program, software, or application that runs on a digital device such as a computer, tablet, or smartphone. AI tools refer to a *software program or application that uses AI algorithms to perform specific tasks*, including those that are AI-based and those that include AI features or functionalities.

State of Play

The COVID-19 pandemic forced many small businesses to move operations online and to adopt digital tools like accounting software, cloud services, e-commerce platforms, and social media. This trend—known as digitalization—has continued to grow with the creation of AI tools and as AI is integrated into existing digital tools. In 2023, 57% of small business owners said they were incorporating AI to some extent in their operations, with most of those users saying that AI had helped their businesses grow and become more efficient.[63] Policymakers took note.

That same year, President Biden issued an executive order that included stipulations to help small businesses better understand AI.[64] Agencies offered grants to encourage small businesses to develop AI tools and applications through the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs.[65]

Lawmakers responded to small businesses' rapid adoption of AI and other digital tools by launching the AI Task Force in the House and the AI Working Group in the Senate.[66] They also introduced bipartisan legislation in the 118th Congress to support small business digitalization and AI use, including:

- S. 2677, the Small Business Broadband and Emerging Information Technology Enhancement Act, would have provided training to SBA employees and authorized SBDCs to assist small business owners with AI adoption.[k]
- S. 4487, the Small Business Artificial Intelligence Training Act, would have authorized the Department of Commerce to work with SBA to create and distribute AI training resources and tools.[l]

The Task Ahead

When asked what would most help them adopt and use AI, 47% of small business owners and executives said financial assistance through grants to access AI technologies, train staff, and cover adoption costs. Thirty-four percent said technical assistance and training resources on how to use them would be helpful.[67]

The cost of purchasing and implementing these tools—especially AI-based ones—can be expensive for all small businesses.[68] Beyond the initial purchase, additional costs could include hardware, maintenance, labor, upskilling, or AI model training.[69] Business owners are also not always aware of the extent to which AI is prevalent in tools they have already adopted or how to use the technology.

Those businesses affected by the digital divide face additional challenges. In 2021, between two to three million small businesses did not have adequate broadband access. For many rural business owners, the broadband speeds they require to operate their businesses outpace the Federal Communications Commission's current benchmarks.[70]

[k] BPC Action endorsed S. 2677 in the 118th Congress.
[l] BPC Action endorsed S. 4487 in the 118th Congress.

Despite those challenges, 58% of small business owners still planned to make at least some investment in AI tools in 2024.[71] As policymakers formulate AI guidelines to contend with the continuous adoption of AI tools, they should consider the impact that AI technology can have on small businesses.

What to Watch: Dedicated AI Support Services

Alaska's Small Business Development Center launched an Artificial Intelligence Resource Center to connect small business owners with resources and to help them leverage AI in their operations and services.[72] The resource center is the first of its kind and a potential example for SBDCs across the country. Dedicated resource centers can help businesses tackle AI now, while regulation makes its way through state and federal legislatures. It can also help them navigate any laws and rules that policymakers implement.

Bipartisan Opportunities for Progress

Ensure Resource Providers Are Equipped to Offer Training and Guidance on Digitalization and AI

Updating existing and establishing new resources would help small business owners get the support needed to adopt digital tools and integrate AI into their operations.

Ensure Infrastructure Is in Place that Supports Adoption of Digital Tools

Expanding broadband access and ensuring adequate computing power and data infrastructure would facilitate the adoption of digital and AI tools. Leveraging and better connecting small businesses to the National Telecommunications and Information Administration's numerous initiatives is one pathway for policymakers.

Promote AI Literacy Skills and Education for Small Businesses

Policymakers, alongside private-sector partners, can promote and expand AI training and reskilling resources through existing bipartisan initiatives to improve and support small business efficiency and growth.

Encourage SBA and Other Agencies to Adopt Digital and AI Tools to Enhance Customer Service

Safe, secure, and responsible adoption of digital and AI technologies would improve the government's ability to assist small businesses.

AI and the Workforce

Despite concerns that AI-led automation could cause job displacement, small business owners are determined to work alongside AI. At multiple BPC roundtables in 2023 and 2024, small business owners said, "AI helps increase capacity so we can engage in other human-oriented tasks," and, "It's a tool, not a replacement."

Read More: *Workforce Resilience and Adaptability for the AI-Driven Economy*

GOVERNMENT PROCUREMENT

State of Play

For the past 11 years, the federal government met or exceeded its goal of awarding at least 23% of direct contract dollars to small businesses. In FY2023, more than 28% of all contract dollars went to small businesses—the highest percentage ever.[73]

Meanwhile, the number of small businesses providing common products and services (everything from construction to office supplies to professional services) to the federal government was 52% smaller in 2023 than in 2010.[74]

Congressional Republicans and Democrats have been working together to improve contracting opportunities for small businesses.

- Nearly one-third of the bills approved by the House Small Business Committee in the 118th Congress dealt with small business contracting. The House passed nine of these bills, including H.R. 7987, the Plain Language in Contracting Act, which would have required contracting opportunities to be written in a clear, concise, and accessible manner.
- Three of the 15 bills reported by the Senate Small Business and Entrepreneurship Committee in the previous Congress proposed reforms to small business procurement.

The Small Business Perspective:
"My company is already making things that the government needs. However, we are missing the opportunity to win those federal contracts because we do not have the means to navigate the convoluted and outdated procurement system. Frankly, it does not even seem worth the effort to navigate the process, especially when it seems like big businesses will likely win the best contracts anyway. I hope Washington can simplify the federal government procurement process so that small businesses can compete."

- PRESIDENT OF A WELDING AND MANUFACTURING BUSINESS IN PILOT GROVE, IA

The Task Ahead

Small businesses consistently express interest in federal procurement, but barriers to entry remain high. In 2023, established suppliers received more than 92% of federal contract dollars. Most of these suppliers were large businesses.[75] Small businesses that have broken into the federal procurement market are doing relatively well, but most others remain on the sidelines.

Small business owners describe federal procurement processes as time consuming and complicated.[76] Challenges exist throughout the procurement system, from getting certified for contracting preferences to navigating the bidding process. These and other obstacles have contributed to the declining number of small businesses participating.

Key contracting goals also remain persistently unmet. The Women-Owned Small Business contracting goal has been met only *twice* since 1994, and the contracting goal for Historically Underutilized Business Zones (HUBZones) has *never* been met.[77]

Strong bipartisan support for expanding small business contracting creates opportunities to remove procurement barriers and expand access.

What to Watch: Cybersecurity Certifications for Defense Contractors

The Department of Defense is implementing enhanced cybersecurity standards for contractors and subcontractors. The Cybersecurity Maturity Model Certification (CMMC 2.0) program will result in defense contractors having to complete self-assessments or be evaluated by either a third-party organization or government assessors.

Small businesses that contract with DOD could incur costs ranging from a few thousand dollars to more than $37,000 for Level 1 and Level 2 assessments. Costs are estimated to be substantially higher for Level 3 assessments.[78]

Although public and private resources exist to help small businesses navigate CMMC 2.0 requirements, business owners are still faced with compliance costs.[79] How these costs affect small businesses' participation in defense contracting and whether small businesses need additional support are important considerations for policymakers during the 119th Congress.

Bipartisan Opportunities for Progress

Set Goals for New Entrants
Establishing specific annual goals for the number of small businesses participating in the federal procurement market would encourage agencies to broaden their supplier base.

Increase Small Business Procurement Goals Further
Recent achievements demonstrate that federal agencies can meet higher goals when they are challenged to do so.

End Double-Counting
Limiting agencies' ability to count small business contracts toward multiple contracting goals would improve reporting and help Congress hold agencies accountable.

Raise the Simplified Acquisition Threshold Above $250,000
Increasing the threshold at which contracts are reserved for small businesses would boost overall small business contracting.

Bolster Outreach and Technical Assistance to Prepare Small Businesses to Compete for Contracts
Educational and support services can help small businesses overcome initial hurdles to win their first government contracts.

Hold Agencies Accountable and Encourage Improvement
SBA's Small Business Procurement Scorecard reports data on how agencies performed relative to their small business procurement goals. Greater congressional engagement with agencies that receive a B grade or lower would increase accountability and could inform future policymaking to improve agency performance.

Double-Counting Contracts Leads to Scorecard Inflation

SBA's Small Business Procurement Scorecard is a valuable tool for understanding the small business contracting market and holding federal agencies accountable.

Read more: *No More Easy A's: Strengthening the Procurement Scorecard*

MANUFACTURING AND EXPORTING

State of Play

Small businesses are a fundamental part of the supply chain and are essential to the strength of the manufacturing industry. Three-fourths of manufacturing companies have fewer than 20 employees, and 98% of supply chain companies are small businesses.[80]

Policies and programs to strengthen the role of small businesses in manufacturing and exporting exist across government agencies. Driven by a diversity of interests, from national security to industrial policy and more, lawmakers on both sides of the aisle supported legislation in the last Congress to strengthen the production capacity of small businesses.

For example, the Senate Small Business and Entrepreneurship Committee passed two bipartisan bills in the 118th Congress to improve commercialization of new technologies and strengthen export assistance: S. 1396, the Research Advancing to Market Production for Innovators Act,[m] and S. 4414, the State Trade Expansion Program Modernization Act.

The Task Ahead

Small businesses will continue to be central to efforts to boost American economic competitiveness despite obstacles that hinder their growth and limit their economic contributions. Small manufacturing businesses, for example, often have higher capital needs than nonmanufacturing firms, making growth and expansion more challenging. Small businesses seeking to expand to global markets also face challenges related to financing and knowledge gaps about exporting. These and other related obstacles are ripe for bipartisan solutions during this legislative cycle.

[m] A House companion, H.R. 3056, also had bipartisan support. BPC Action endorsed both during the 118th Congress.

What to Watch: SBIR/STTR Reauthorization

The SBIR and STTR programs supply billions of dollars annually to help small businesses develop and commercialize innovative technologies. Congress passed a bipartisan three-year reauthorization bill in 2022 that implemented several reforms:

Expanding Participation: The SBIR and STTR Extension Act of 2022 endorsed the practice of holding “open competitions” for SBIR and STTR awards by requiring the DOD to conduct at least one open topic competition at each component agency per year.

Open competitions allow small businesses to define a problem and propose a solution (as opposed to only responding to an agency-defined problem). The use of this solicitation tactic is growing, and research shows it can increase the number of small businesses competing for awards and improve commercialization outcomes.[81]

Establishing Minimum Performance Standards: The 2022 reauthorization bill also established new standards for small businesses that have won 50 or more SBIR or STTR awards in recent years. These standards are meant to drive programmatic outcomes like commercialization and encourage broad participation in the programs.

The effectiveness of these reforms, especially as it relates to multiple award winners, is likely to be top of mind as Congress considers another reauthorization bill this year.

Bipartisan Opportunities for Progress

Enhance Small Manufacturers’ Ability to Access Affordable Capital

Increasing the maximum amount for 504 and 7(a) loans would help small manufacturers expand their production capacity.

Improve SBICs' Ability to Invest in Small Manufacturers

Incentivizing Small Business Investment Companies to offer more long-term financing to small manufacturers would help small manufacturing businesses acquire the capital they need to make critical investments and expand capacity.[n]

Increase Small Business Owners' Knowledge of Export Assistance Programs

In a 2022 survey of small businesses, more training and assistance was the most desired form of federal support for exporting, but small businesses were unaware of the many forms of government assistance.[82] Improving existing resources would help more small businesses overcome knowledge gaps.

Improve Accessibility of SBIR and STTR

Authorization of the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs expires on October 1, 2025. Requiring agencies to conduct outreach and offer application assistance to small businesses that have not historically participated in SBIR and STTR would broaden the scope of these innovation-spurring grants.

Small Businesses and U.S. Competitiveness Policy

Larger policy conversations regarding U.S. trade policy could affect exporting opportunities for small businesses. The recent mix of U.S. investments and restrictions, including tariffs, constitute what some call a "modern American industrial strategy." Read the report to learn more about what the research says about this two-sided approach to boosting American competitiveness.

Read more: *Innovation Nation: Toward a Comprehensive Approach to Boosting U.S. Economic Competitiveness*

n The American Innovation and Manufacturing Act would create a new facility in the SBIC program to make patient capital available to small manufacturing firms. This legislation had bipartisan support in the House of Representatives (H.R. 2262) during the 117th Congress but not in the 118th Congress (S. 46 and H.R. 580) as of November 26, 2024.

Silvia Lucci, LUHV Food, Philadelphia, PA

Conclusion: *Translating Goodwill into Action*

In 2024, Americans had more confidence in small businesses than any other institution, with Democrats and Republicans reporting nearly identical levels of trust.[83] Historically, Congress and the White House have mirrored the public's bipartisan support of small businesses.

As described in this playbook, a small business lens can help policymakers find common ground in 2025 and beyond. Past proposed legislation and state and local initiatives set a foundation for new and returning policymakers to build on. As they do, they will be crafting solutions that make a meaningful difference in the lives of Americans by strengthening a vital pillar of the economy: small businesses.

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Bipartisan Policy Center

1225 Eye St NW, Suite 1000
Washington, DC 20005

bipartisanpolicy.org

202 - 204 - 2400

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