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Foundation for A REPORT TO THE PRESIDENT AND CONGRESS a New Century

The White House Conference
on Small Business Commission

SEPTEMBER 1995

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The 60 Recommendations of the 1995 White House Conference on Small Business

Note: This document was prepared by the Office of Advocacy of the U.S. Small Business Administration, based upon information provided by the Issues Department of the White House Conference on Small Business. For further information or additional copies, contact the Office of Advocacy (MC 3110), U.S. Small Business Administration, Washington, DC 20416.
Balldice numbers preceding the text of each recommendation are National Conference Recommendation Agenda reference numbers that were assigned to each proposed recommendation that was considered at the national conference.

Capital Formation

5. In order to increase the availability of capital for small business, Congress shall:

- (a) Authorize the SEC or an appropriate entity to create or streamline regulations and vehicles for public and small and large private company pensions, profit sharing, 401(k) plans, individual IRAs, Keogh, and SEP Plans to invest in small businesses by accessing the private capital markets and encouraging development of viable markets for small-business loans.
- (b) Modify current legislation to facilitate the ability of an individual to invest up to 50 percent of his or her own self-directed and/or managed qualified plans including profit sharing, 401(k) plans, individual IRAs, Keogh, and SEP Plans in a specific small business(es) of his/her own choice. These funds could be used as a direct investment or as collateral to obtain debt financing. (votes received: 1279)

Capital Formation

9. Banks are too highly regulated and restrictions on lending to small businesses are too severe. To increase the amount of small-business lending (and create thousands of jobs) we propose: (a) small-business loans should be reviewed collectively based on institutions' overall loan delinquency ratios, and (b) relaxing of collateral and income-to-debt ratio requirements allowing banks to make smaller loans based on character, personal background and creditworthiness, such as those loans permitted pursuant to the loan-basket guidelines under the capital availability program. Also, Congress should enact or amend legislation to direct the Comptroller of the Currency and other examining authorities to allow banks, especially community banks, to invest more readily in small business through no-cost, low-cost incentives, such as:
(a) Directing bank regulatory agencies to reduce paperwork commensurate with loan size;
(b) Reduce the number of federal agencies regulating banking through consolidation and coordination;
(c) Allow government deposits to be placed in a bank based on the percentage of that bank's portfolio that is placed in small-business loans. (votes received: 1275)

Capital Formation

14. To increase the availability of growth capital to invest in small businesses, Congress should:

- (a) Further privatize the Small Business Investment Company (SBIC) program, now administered by the SBA, by creating a new, government sponsored, but privately managed, corporation named Venture Capital Marketing Association or "Vickie Mae" which would function similar to the Federal National Mortgage Association (Fannie Mae);
- (b) Extend the capital gains tax deferral currently afforded investments rolled into Specialized Small Business Investment Companies (SSBICs) to include investments in SBICs to encourage more investment in new SBICs;
- (c) Remove barriers in pension funds, foundations and endowments wishing to invest in SBICs and SSBICs; eliminate the "unrelated business taxable income" (UBTI) tax on all such activities; and
- (d) Reduce the minimum capital size requirements for establishing SBICs owned by regulated financial institutions, thereby encouraging them to provide equity to small business provided that no leverage is utilized by such SBIC and current minimum capitalization for leverage is achieved. (votes received: 1009)

Capital Formation

20. Congress should support the investment in small businesses by:

- (a) Establishing a tax-free rollover provision for the gains on sale of assets or ownership interests in a small business that are reinvested or rolled over into another small business within one year;
- (b) Congress should amend Code Section 1202, which is legislation excluding 50 percent of all capital gains from income, to extend its benefits to S Corporations and Limited Liability Companies by defining a "qualified small business" to include C Corporations and the other two entities, and extend the definition of a "qualified trade or business" under Section 1202 to all businesses;
- (c) Congress should enact tax legislation to allow a tax deduction against ordinary income for investments in small business. (votes received: 672)

Capital Formation

24. The Small Corporate Offering Registration (SCOR) was

meant to be a means for self-reliant small business owners to raise equity capital with a minimum of professional assistance (legal and accounting services) and the lowest origination costs. To facilitate the use of SCORs, we proposed that the SEC/Congress raise the \$1 million per year ceiling to \$5 million, remove limits on the number of investors, allow for "tombstone advertising" of stock offerings and fund educational programs for investors and issuers to be administered at state and local levels. A greater degree of uniformity of state laws or reciprocity between states would be encouraged by the SEC through granting educational grants to states that accomplish this goal. (votes received: 1027)

Capital Formation

25. Comprehensive Federally Guaranteed Financing Reform: Congress shall continue to appropriate funds for the Small Business Administration Loan Guarantee programs, while focusing on the following:

- (a) Prohibit excessive abuses in the over-collateralization of all federally guaranteed loan programs;
- (b) Establish criteria which would allow greater access to all federally guaranteed loan programs;
- (c) Increase the SBA loan guarantee programs from its current level of \$750,000 to \$1,000,000;
- (d) Only primary owners (not passive investors) should be required to make personal guarantees on federally guaranteed loans;
- (e) Increase the number of non-bank lenders (SBA/C) eligible to process SBA loans;
- (f) Require all federally guaranteed loans be processed in a timely manner. (votes received: 284)

Capital Formation

28. Congress should require that federal agencies evaluate the performance of financial institutions under the Community Reinvestment Act ("CRA") on the basis of such institutions' efforts to meet the credit and banking needs of small businesses in their communities. In making such evaluations, those financial institutions which extend credit to small businesses without the support of government loan guarantees should be rated higher than those institutions which simply participate in SBA, FAFHA and other guarantee programs, and/or purchase government insured loans and loan pools. Further, Congress should direct such federal agencies to issue a separate rating of each financial institution's CRA performance relative to small business (as opposed to the current practice of issuing one rating for overall CRA performance with respect to the entire community). (votes received: 554)

Community Development

31. Congress should enact legislation and the Administration should implement a process so that community and economic development programs could be maximized in distressed urban and rural areas by:

- (a) Creating a "most favored" community status;
- (b) Continuing and enhancing the SBA micro-loan program;
- (c) Vigorously enforcing the Community Reinvestment Act with special efforts placed on elimination of redlining;
- (d) Providing economically oriented incentives such as abatement of federal income taxes to encourage the service/retail industry and other small businesses to locate and expand in these areas;
- (e) continuing to emphasize small, non-traditional financial institutions, women and minority-owned business participation. (votes received: 949)

Community Development

34. Congress should further legitimize home-based business and restore the home office tax deduction by reversing the effect of the 1993 *Salomon* decision which requires that:

- (a) Clients physically visit a home office; and,
- (b) Business income be generated within the home office.

This would again allow essential administrative, operational and/or management tasks to qualify a home office as the "principal place of business." (votes received: 1239)

Community Development

41. The U.S. Department of Education in cooperation with the U.S. Small Business Administration should work constructively to encourage the future growth of small business enterprises by promoting entrepreneurship education across America's school systems (K-Adult Education). It would be accomplished in the following manner:

- (a) Develop and implement a comprehensive school-based youth entrepreneurship program that creates real world busi-

ness exposure and mentorships.

- (b) The program would be under the auspices of the Department of Education and funded by grants through public/private partnerships.
- (c) All funds would be matched one to one in the community served by the program.
- (d) Businesses would receive tax incentives for financially supporting the entrepreneurship training programs in their area. (votes received: 1035)

Community Development

44. Efforts of an individual state or municipality to benefit its local economy should not be made at the expense of other states or municipalities and at the peril of the strength of the entire economy. It should be the interest of the Congress to benefit the economic security of all the citizens of the United States by working to provide the resources to expand the economy nationwide. Therefore, Congress should ban the direct or indirect utilization of federal funds of any kind, including subsidies, grants/bonds or tax exempt financing that funds, in whole or in part, any special tax, infrastructure improvement and/or financing incentive by any state or municipality to lure existing jobs and businesses from one location to another. (votes received: 598)

Environmental Policy

51. Congress shall mandate a complete review of current laws and regulations relating to public health and safety, energy and the environment, such as the Resource Conservation and Recovery Act, Clean Water Act, and Clean Air Act, Endangered Species Act, and National Environmental Policy Act. This mandated review shall be completed within six months. Before Congress passes laws to be regulated through the EPA and any other agency, which require specific technology and/or procedures for protecting the environment, the agency(s) must conduct a cost-benefit analysis on a dynamic basis model and ensure that the particular regulation is based on sound science. For any proposed regulation said agency shall have six months to complete the cost-benefit analysis prior to implementation. In addition, regulations shall include a funding mechanism which will facilitate compliance and be enforceable on a site specific basis. All costs shall be allowed to be expensed within the current year. The regulated community shall be included in any cost-benefit analysis.

Where natural conditions exist, compliance based on technical expertise should be accepted as conforming to the intent of the regulation. Regulations should take into consideration site-specific conditions in future use. Any disputes about implementation must be subject to a non-governmental peer group review board. Voluntary environmental audit privilege and disclosure shall release the party(s) from administrative, civil, and/or criminal penalties (so long as non-compliance is not caused by gross negligence or willful misconduct) when the disclosing entity initiates actions to comply within a reasonable time. No fines can be used to fund the fining agency. Congress shall mandate EPA and any other agencies to review existing and new regulations to ensure that they adhere to the same standards as outlined in this document. All existing and proposed regulations must not create duplication of enforcement. There shall be no retroactive liabilities. Additionally, the fining ability of the EPA shall be revoked.

Federal agencies regulating environmental matters must make sure that current science, realistic risk assessments, net health analysis, and cost-benefit analysis shall apply in order to reduce, condense and/or eliminate regulations, prohibit abuse, allow adequate time to correct, and hold government and its employees accountable. (votes received: 1342)

Environmental Policy

52. Federal policy regarding use of private property within the context of environmental issues should be reviewed and substantially revised. EPA and state-related penalties should be reviewed to confirm that the real potential for environmental harm, risk assessment, and cost-benefit analysis are used in land use decisions. The issues of takings, wetlands, and brownfields should receive special attention, as articulated below.

Takings

Any governmental action, law, or regulation that deprives a property owner of value or benefits of his or her private property shall constitute a "taking" for which said property owner shall be entitled to full "fair market value" compensation. Specifically, government should examine the economic impact before property is taken and prohibit the taking of property without just compensation.

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BUILDING THE

Foundation for a New Century

Final Report
on Implementation of the Recommendations of the
1995 White House Conference on Small Business

SBA