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Marketplace pushed for unused tax deductions

Unprofitable businesses could sell their equipment-depreciation deductions for needed cash.

By Eilene Zimmerman

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Small businesses, especially startups, often won't be profitable for years. But they still have to invest in such things as manufacturing tools and computers. Though the federal government offers a substantial tax deduction for equipment purchases, businesses that operate at a loss—and thus don't owe any taxes—lose the deduction for that year.

June R. Klein and her husband, Ira Klein, would like that to change. They are pushing for federal legislators to propose a law that would create a marketplace where a small business could sell deductions it can't use.

CONNECTING BUYERS, SELLERS

A small-business owner herself, Ms. Klein is CEO of Technology & Marketing Ventures Inc., a Manhattan-based consulting firm. Mr. Klein is a tax attorney and general counsel for his wife's firm.

The Kleins envision a marketplace that would connect buyers and sellers and would determine the value of equipment-depreciation deductions through a bidding process.

The mechanism would be similar to that for tax benefit transfer leases, which were developed during the recession of the early 1980s. The leases let owners sell equipment-depreciation deductions, though not in an auction-like setting.

"Most small businesses didn't take advantage of TBT leases because of their complexity and the legal costs," said Mr. Klein, who helped craft the details of those leases. The authorizing law was repealed in 1983, he added, as large companies were the primary beneficiaries of the leases.

The Kleins insist that a tax benefit exchange would be simpler and would boost small companies by giving them cash for a deduction they can't use immediately.

INCOME BALANCING

Sara Horowitz, founder and executive director of the Freelancers Union, based in Brooklyn, thinks the exchange could help freelancers. "Anything that allows them to even out their income over time is a good thing," she said.

The Kleins are working on building local support for the initiative. In March, Ms. Klein gave the proposal to Nancy Ploeger, president of the Manhattan Chamber of Commerce, and to Sen. Kirsten Gillibrand's staff in New York. They have also sent it to Rep. John Larson, a Connecticut Democrat on the House Ways and Means Committee. The senator's office is reviewing it; Mr. Larson's has not yet done so.

The Kleins argue that their proposed law wouldn't cost the U.S. Treasury anything and wouldn't affect the deficit, because depreciation deductions are "already scored in the deficit calculations by the Congressional Budget Office."

But that representation isn't accurate, according to Sandy Botkin, president of the Tax Reduction Institute and author of *Lower Your Taxes—Big Time!*.

"If a firm in the top bracket buys the depreciation, it will get an immediate reduction in taxes and the government loses

revenue, [perhaps] a substantial amount,” said Mr. Botkin, also a former IRS attorney. “I think that will make this a loser in Congress. They are looking for ways to balance the budget, and this isn’t going to help them do that.”

Ms. Ploeger thinks the proposal has legs, however.

“President Obama has put a lot of money into funding Small Business Administration programs, and if this is another way to [do that], we should,” she said. “If you add up all the monies our government is already spending on small-business support—\$30 billion here, \$50 billion there—the loss will be a drop in the bucket.”

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