THIRD WAY

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How to Help Entrepreneurs Take the First Step

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Takeaways

Aspiring entrepreneurs must consider a seemingly endless number of financial decisions before starting their businesses—from kids to their health insurance. This report examines the challenges that can hold entrepreneurs back from taking that first step in business ownership and presents policy solutions designed to address these core issues.

Ideas include more affordable child care options, expanded retirement savings through catch-up contributions, improving student loan debt education and options for entrepreneurs, expanding startup support for the unemployed, and ensuring health insurance through the ACA stays affordable.

What do I do about my kids? Will I lose my health insurance? What about my student loans? Starting a business is inherently risky, but there are so many constraints holding back entrepreneurs from even taking the first step. Aspiring entrepreneurs often worry about child care costs, student loan debt, saving for retirement, covering health insurance premiums, and more. All of these issues can complicate an entrepreneur's efforts to launch their business. In this paper, we outline a series of policy ideas to help entrepreneurs overcome these challenges. Getting more would-be entrepreneurs off the sidelines is key to a growing and dynamic economy.

Overcoming Child Care Costs

Congress should make child care more affordable. Nearly 60% of small business owners who are parents said that the lack of affordable child care was a barrier to starting and growing their business. [1] Additionally, 58% say child care issues hurt their productivity, particularly among women and younger business owners. [2] Congress can alleviate costs by increasing the Child Care Tax Credit, expanding capital resources for child care providers, expanding the child care workforce, and placing a cap on child care costs for working families. Several legislative proposals would do just that—providing parents with the flexibility they need to launch their startups successfully. Specifically:

Child Care Availability and Affordability Act [1]	• Introduced by Sens. Tim Kaine (D-VA) and Katie Britt (R-AL) • Increases the Child and Dependent Care Tax Credit (CDCTC) and makes it refundable. The CDCTC is a nonrefundable tax credit for workers based on child and dependent care expenses. Qualifying expenses reduce federal tax liability. [2] • Allows families to deduct 50% more in expenses for the Dependent Care Assistance Program. This program is an employee benefit where the employer provides reimbursements for eligible child care expenses. [3] • Increases the Employer-Provided Child Care Tax Credit. Currently, this tax credit provides employers up to $150,000 per year if they offer child care to their employees. [4]
Small Business Child Care Investment Act [5]	• Introduced by Sens. Jacky Rosen (D-NV) and Joni Ernst (R-IA) • Ensures that nonprofit child care providers are eligible for certain SBA loans, like the 7(a) and 504 programs.
Child Care Workforce and Facilities Act [6]	• Introduced by Sens. Amy Klobuchar (D-MN) and Dan Sullivan (R-AK) • Establishes a competitive grant program to support states in training and retaining the child care workforce as well as building, renovating, or expanding child care facilities in child care deserts.
Child Care for Working Families Act [7]	• Introduced by Sen. Patty Murray (D-WA) and Rep. Bobby Scott (D-VA) • Establishes the Birth Through Five Child Care and Early Learning Program that would cap child care costs for working families. It would also improve the quality and supply of child care providers. • Offers the Building an Affordable System for Early Education (BASE) grants that would ensure adequate funding to support child care providers. • Creates a universal preschool program.

Source: 1."Kaine and Britt Introduce Bold Bipartisan Proposal to Make Child Care More Affordable." Office of United States Senator Tim Kaine, July 31, 2024, https://www.kaine.senate.gov/press-releases/kaine-and-britt-introduce-bold-bipartisan-proposal-to-make-child-care-more-affordable. Accessed November 19, 2024; 2. Crandall-Hollick, Margot L., and Conor F. Boyle. Child and Dependent Care Tax Benefits: How They Work and Who Receives Them. Congressional Research Service, February 1, 2021, https://crsreports.congress.gov/product/pdf/R/R44993. Accessed November 19, 2024; 3."Dependent Care Assistance Program (DCAP)." First Five Years Fund, https://www.ffyf.org/policy-priorities/dcap/. Accessed November 19, 2024; 4."Employer-Provided Childcare Credit." Internal Revenue Service, https://www.irs.gov/businesses/small-businesses-self-employed/employer-provided-childcare-credit. Accessed November 19, 2024; 5. "Small Business Child Care Investment Act of 2023." Congress.gov, 118th Congress, S. 673, https://www.congress.gov/bill/118th-congress/senate-bill/673/text. Accessed November 19, 2024; 6."Child Care Workforce and Facilities Act of 2023." Congress.gov, 118th Congress, S. 268, https://www.congress.gov/bill/118th-congress/senate-bill/268/text. Accessed November 19, 2024; 7."The Child Care for Working Families Act Summary." Office of United States Senator Patty Murray, https://www.murray.senate.gov/wp-content/uploads/2023/04/The-Child-Care-for-Working-Families-Act-Summary.pdf. Accessed November 19, 2024.

Overcoming Retirement Concerns

Congress should establish "catch up contributions" for startups. Many businesses take up to two years to reach profitability, during which, retirement savings often take a back seat. [3] However, delaying retirement contributions, even briefly, can significantly impact long-term returns. To address this, Congress could introduce a "catch-up contribution" for startups, allowing entrepreneurs to make additional contributions to retirement accounts to offset earlier gaps. Unlike traditional catch-up provisions limited to those aged 50 and older, this proposal would be available to business owners of all ages, with safeguards to prevent tax sheltering. This approach would help entrepreneurs avoid the tradeoff between investing in their business and securing their financial future. Congress could also enhance incentives for entrepreneurs to adopt existing retirement plans like the Simplified Employee Pension plan (SEP-IRA) or the SIMPLE IRA, which already have higher contribution limits and tax advantages tailored for small business owners.

Congress should rein in hidden fees and improve transparency in retirement costs. Small employers often face higher setup, administration, and management fees compared to larger firms, which can deter them from offering retirement plans despite their potential benefits for hiring, retention, and personal savings. [4] Many of these fees, such as those deducted from investment returns, are not clearly disclosed and can directly hinder the growth of employees' and business owners' retirement savings. While the SECURE 2.0 Act of 2022 introduced important incentives for small businesses, further action is needed. Congress should require retirement plan providers to eliminate hidden fees and clearly disclose all costs. Additionally, small businesses and self-employed individuals should have access to educational resources on affordable, efficient retirement plan options.

Overcoming Student Loan Debt

Congress should implement a targeted loan forgiveness program for entrepreneurs. In almost five decades, the cost of college has nearly tripled, leaving the average undergraduate with $25,000 in debt. [5] Congress should create a targeted student loan forgiveness program for entrepreneurs to reduce the financial barriers of student debt for existing small business owners. Modeled after the Public Service Loan Forgiveness Program, this initiative would forgive the remaining federal student loan debt of business owners who operate their business for 10 years and make 120 qualifying monthly payments during that period. Eligibility would be verified through documentation of continuous business activity, such as tax returns, business licenses, or evidence of revenue and employment, ensuring that the program supports genuinely active entrepreneurs.

Recognizing that many businesses face significant challenges in their early years, Congress should also encourage collaboration between the Department of Education and the SBA's Small Business Development Centers (SBDCs). This partnership would guide entrepreneurs on student loan repayment options, including deferment and income-driven repayment plans, providing critical relief during the high-risk startup phase. By addressing both long-term forgiveness and short-term relief, this program would empower more individuals, especially those from underserved communities, to pursue entrepreneurship without the weight of student debt.

Overcoming Income Insecurity Concerns

Congress should expand the Self-Employment Assistance (SEA) Program. The Progressive Policy Institute recently released a report highlighting a little-known program within the Unemployment Insurance safety net known as Self-Employment Assistance. [6] The SEA program helps unemployed individuals transition into entrepreneurship by allowing them to receive unemployment benefits while starting a business, replacing the job search requirement with business development activities. By reducing income insecurity during the critical early stages of launching a business, SEA supports entrepreneurship, fosters local job creation, and stimulates economic growth. States like New York, Oregon, and Delaware have successfully implemented SEA programs, but limited awareness, complex eligibility requirements, and insufficient support services have restricted broader adoption.

Congress should expand funding for the Self-Employment Assistance (SEA) program to enable more states to pilot this innovative initiative and address its existing challenges. These dollars could come from recouping fraudulent unemployment insurance (UI) funds. Senators Ron Wyden (D-OR) and Mike Crapo (R-ID) recently introduced the *Unemployment Insurance Integrity and Accessibility Act* that would allow states to keep recovered funds to enhance their UI systems. In addition to improving state UI systems, states should also be permitted to allocate these resources toward establishing a SEA Pilot Program.

Overcoming Health Insurance Costs

Congress should extend the Affordable Care Act premium tax credits (PTC). The Affordable Care Act (ACA) marked a significant milestone, providing coverage to over 6.2 million small business owners and self-employed workers. [7] To make ACA coverage even more affordable, the premium tax credit (PTC) was created as a refundable credit that helps eligible individuals and families cover the premiums for their health insurance purchased through the marketplace. Initially expanded through the American Rescue Plan Act (ARPA) and later extended by the Inflation Reduction Act (IRA), the enhanced subsidy lowered the income thresholds for low-income families to receive full or partial premium subsidies. [8] Extending PTC eligibility beyond 2025 would be particularly advantageous for startup entrepreneurs, ensuring they have ongoing access to affordable health care during a critical phase of their business development.

Conclusion

Starting a small business is a huge leap. In this paper, we have explored several policy solutions aimed at fostering a supportive environment for new business owners: ensuring access to affordable child care, allow catch-up retirement contributions, offering greater loan deferment or forgiveness options, the option to enroll in the self-employment assistance program, and an expansion of health care premium support. Together, these policies will create an inviting environment for budding entrepreneurs to feel comfortable in taking those first steps to starting and scaling businesses for generations to come.

TOPICS

ALL TOPICS

ENTREPRENEURSHIP 40

ENDNOTES

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