

## The Agenda for America's Entrepreneurs: Taxes



For too long, our nation's tax system has benefited the wealthiest Americans and large multinational corporations at the expense of small business owners, their employees and independent entrepreneurs. For instance, the 2017 Tax Cuts and Jobs Act increased the deficit by [\\$1.9 trillion](#), while dramatically lowering the rates for large corporations and the very wealthy with very little tax benefit for Main Street small business owners.<sup>1</sup> [Our polling](#) found 85% feel the tax code unfairly benefits large corporations over small businesses, a disparity that has undoubtedly been exacerbated by the COVID-19 pandemic.<sup>2</sup> In order to level the playing field for small businesses and restore our economy from the bottom up, policymakers must implement measures that will help all entrepreneurs, rather than giving tax breaks to those who need it least. This must include the following policy recommendations.

### Top three priorities for Congress to support small business

- Support tax credits for entrepreneurs who are not currently being served by existing tax benefits. For instance, Senator Wyden's (D-OR) PROGRESS Act, provides tax credits to start-up businesses and a first employee tax credit up to \$10,000 for individuals earning less than \$100,000 (or \$200,000 for joint filers). This would particularly benefit women and minority-owned businesses that have been historically left behind by the nation's tax code.
- Raise revenue while repositioning income tax benefits toward Main Street small businesses. Specifically, we recommend replacing the 2017 tax bill's pass-through component with a provision allowing small businesses to deduct their first \$25,000 in business income, whether or not they file their tax returns as a pass-through entity or as a C-Corporation.
- Close inefficient corporate loopholes that put small businesses at a competitive disadvantage and add to the deficit. The savings would more than pay for the pass-through tax recommendation above.

### Consider proactive tax policies that would boost Main Street small businesses

- Ensure parity between online and brick-and-mortar businesses with a reasonable and fair Internet sales tax solution. In 2018, the U.S. Supreme Court ruled in favor of tax parity, saying that states can require firms to collect online sales tax purchases even if a business has no physical presence in the state.
- Reintroduce and enact the Protecting Taxpayers Act, which would streamline tax reporting for small businesses.
- Align form 1099 reporting thresholds and streamline income reporting for independent workers.
- Identify and fix tax issues unique to micro-enterprises and freelancers, such as burdensome quarterly tax filings for freelance employees. These quarterly filing requirements, mandatory for any freelancer who will owe more than \$1,000 annually to the IRS, are onerous and leave

<sup>1</sup> Congressional Budget Office, "How the 2017 Tax Act Affects CBO's Projections." April 2018. <https://www.cbo.gov/publication/53787>

<sup>2</sup> Small Business Majority, "Small Business Owners Want Fair Tax System Over Tax Cuts." October 2017. <https://smallbusinessmajority.org/our-research/taxes-budget-economy/small-business-owners-want-fair-tax-system-over-tax-cuts>

independent workers vulnerable to costly fees. Reforms should be considered that would require some types of companies to withhold on behalf of independent contractors.

- Establish a standard business expense deduction for independent workers.

### **Create small business opportunities through tax credits and incentives**

- Make the New Markets Tax Credit permanent. This tax credit has helped attract more than \$60 billion in private sector funding to build businesses in economically-distressed communities across the United States.
- Increase federal tax deductions for entrepreneurs in their first year of business, like increasing limits for deducting start-up and organizational expenses from the current \$10,000 to \$20,000.
- Expand both federal and state Earned Income Tax Credit (EITC) programs to increase small business employees' incomes and allow self-employed entrepreneurs to buy into the programs.
- Create more tax incentives for angel investors. More than half of states offer tax incentives for angel investors.
- Pass healthcare tax equity for the self-employed so that freelancers can deduct their healthcare expenses from their FICA tax obligations-just like other business entities.
- Extend renewable energy tax credits that can benefit small businesses. Businesses that operate facilities that produce electricity from wind and other renewable resources can choose either the Production Tax Credit or the Energy Investment Tax Credit. These credits are set to expire in 2019 and 2021 respectively.
- Ensure Opportunity Zones guidelines are designed to benefit Main Street small business owners rather than focusing on primarily incentivizing real estate development. This includes requiring reporting metrics that measure program success based on the number of jobs created, where those jobs are located, employee wages and the number of businesses created, particularly businesses formed by women or people of color.