

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.¹ [Our polling](#) found that 85% of small business owners believe the tax code unfairly benefits large corporations over small businesses, a disparity that has undoubtedly been exacerbated by the COVID-19 pandemic.² 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 priorities for Congress to support small business

- Pass the [American Jobs Plan](#) and the [American Families Plan](#) to enforce the tax code and close tax loopholes for large corporations and wealthy Americans.
 - The American Jobs Plan proposes a minimum 15% tax on profits that large corporations report to their investors (“book income”), which would stop firms from using manipulated “taxable income” to pay little or nothing in taxes. [Our recent survey](#) found 76% of small businesses support the 15% tax provision.³
 - The plan would set a minimum tax rate of 21% on corporate offshore profits, eliminate the rule that allows U.S. companies to pay zero taxes on the first 10% of return and make it tougher for U.S. corporations to dodge U.S. taxes by adopting phone foreign addresses. Seven in 10 small business support implementing a 21% minimum tax rate on corporate offshore profits.
 - The American Jobs Plan would raise the corporate tax rate to 28% from 21%, a provision that impacts only 5% of small businesses while currently primarily benefiting large corporations. [Our most recent survey](#) found a majority of small businesses support increasing the corporate tax rate to 28%, with an even greater number supporting our proposed graduated tax brackets:
 - First \$0-25,000: 0%
 - Next \$25,0001-75,000: 15%
 - Next \$75,001-150,000: 21%
 - Next \$150,001-300,000: 25%
 - Next \$300,001 and above: 28%
 - Additionally, the proposed changes to the taxation of capital gains will help to level the playing field for the smallest of businesses.
- Raise revenue while repositioning income tax benefits toward Main Street small businesses.

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

² 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>

³ Small Business Majority, “Survey: Small Businesses Support Tax Reforms to Pay for Robust Infrastructure Investments.” June 2021.

<https://smallbusinessmajority.org/our-research/infrastructure/survey-small-businesses-support-tax-reforms-pay-robust-infrastructure-investments>

- In addition to passing the tax provisions in the American Jobs Plan, we support the Plan's proposed increase of the top tax rate on the very wealthy, understanding that only 1.6% of businesses with pass-through income pay at the top rate.⁴ This also has broad support as evidenced in our recent survey with 67% of support among small businesses.
- Additionally, we recommend replacing the 2017 tax bill's top-down Section 199A pass-through deduction with a bottom-up provision allowing small businesses to deduct their first \$25,000 in business income.

Level the playing field through tax policies that would boost Main Street small businesses

- 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 these programs, as proposed in the American Families Plan.
- 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.
- 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 as proposed in the American Jobs Plan. 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.
- 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.
- Ensure that states enforce 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.
- 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 independent workers vulnerable to costly fees. Reforms should be considered that would require some types of companies to withhold on behalf of independent contractors.

⁴ Tax Policy Center, "T20-0129 - Sources of Flow-Through Business Income by Statutory Marginal Tax Rate; Current Law, 2019." April 2020. <https://www.taxpolicycenter.org/model-estimates/distribution-business-income-april-2020/t20-0129-sources-flow-through-business>