

THE AGENDA FOR AMERICA'S ENTREPRENEURS

Tax Reform

When crafted with the needs of America's smallest businesses in mind, our tax code can serve as a critical tool in fostering a level playing field between large corporations and the small businesses that rely on tax incentives to grow their operations. However, the current tax code does not work for small businesses. Small Business Majority's research found that 82% of small businesses believe the current tax code favors large corporations over small businesses. The forthcoming expiration of several Tax Cuts and Jobs Act (TCJA) provisions in 2025 presents a monumental opportunity to implement bottom-up tax reforms that serve the true needs of small businesses. To ensure that the voices of the smallest businesses are represented in the tax debate, Small Business Majority advocates for equitable reforms that will allow entrepreneurs to invest more of their hard-earned income back into their business and generate revenue to fuel the programs that serve the small business community.

- Replace Section 199A with a bottom-up tax deduction that would allow the smallest businesses to deduct \$25,000 of their qualifying business income (QBI). Currently, 199A, known as the pass-through deduction, enables small businesses organized as sole proprietorships, partnerships, S corporations, trusts, or estates to deduct 20% of their qualifying business income (QBI) from their taxes. Small Business Majority research found that more than twice as many small business owners support our proposal to reform the deduction to maximize its impact on very small businesses compared to those who oppose it.
- Reject the use of inflationary tariffs, which lead to exacerbated trade wars, retaliatory tariffs and stark price increases for small business owners. Implementing a 60% tariff on Chinese imports and a standard 10% tariff on all other imports will not reduce costs for Americans but will instead increase the cost of goods and services, harming small businesses and their customers the most. Instead, Congress should look to raise revenue by holding top earners accountable for paying their share of taxes and ensuring proper revenue collection through the IRS. Section 301 tariffs implemented during the previous Trump administration cost the American economy a staggering \$129 billion, according to the National Retail Federation.
- Raise the corporate tax rate from 21% to 28%, which will generate increased revenue that can be used to support federal investments in small businesses. Our research found that 52% of small business owners support increasing the corporate tax rate to 28% to generate revenue. Only 5% of all small businesses are organized as C-corporations.
- Equip the Internal Revenue Service (IRS) with the adequate funding and resources necessary to fulfill its essential functions. A vast majority of small business owners think that the IRS needs more funding to properly improve customer service (85%), audit large corporations (82%) and provide tax filing assistance (81%).
- Ensure that efforts to reform the tax code include strengthening the Earned-Income Tax Credit (EITC) which helps self-employed individuals keep more money in their pocket to invest back into their business. Congress should build off the success of the temporary expansions made to the EITC in the American Rescue Plan Act by raising the maximum credit for childless adults and expanding the income limits and age range for eligible adults.
- 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.
- Make the New Markets Tax Credit (NMTC) permanent by passing the New Market Tax Credit Extension Act (H.R. 2539/S. 234). NMTCs are critical for stimulating investment in underserved communities and expanding affordable lending options for small businesses.