

**WRITTEN STATEMENT FOR THE RECORD BEFORE THE U.S. HOUSE
COMMITTEE ON SMALL BUSINESS AND U.S. SENATE COMMITTEE ON SMALL
BUSINESS AND ENTREPRENEURSHIP**

**“PROSPERITY ON MAIN STREET: KEEPING TAXES LOW FOR SMALL
BUSINESSES”**

April 14, 2025

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Founder & CEO, Small Business Majority

Dear Chair Williams, Chair Ernst, Ranking Member Velazquez, Ranking Member Markey and members of the House Committee on Small Business and Senate Committee on Small Business and Entrepreneurship:

As a leading representative of America’s 34 million small businesses, Small Business Majority is pleased to provide written testimony on how Congress can best support the needs of our nation’s small business ecosystem through the tax code.

Small Business Majority is a national small business organization that empowers America’s diverse entrepreneurs to build a thriving and equitable economy. From our 12 offices across the country, we engage our network of more than 85,000 small businesses and 1,500 business and community organizations to deliver resources to entrepreneurs and advocate for public policy solutions that promote inclusive small business growth. Our work is bolstered by extensive research and deep connections with the small business community that enables us to educate stakeholders about keys issues impacting America’s entrepreneurs, with a special focus on the smallest and most under-resourced businesses.

For more than a decade we have examined the reality of how taxation affects America’s small businesses and have effectively advocated for policies that support a resilient, inclusive economy. Our work has combined analyses of tax policies’ impacts on Main Street along with scientific research into small business needs and attitudes and is bolstered by the stories of real small business owners.

As uncertainty festers on Main Street, small businesses require a tax code that supports their sustainability and growth

When structured with the needs of America’s smallest businesses in mind, the tax code can play a critical role in supporting the sustainability and growth of Main Street businesses, putting more money back into business owners’ pockets which can be reinvested in new jobs, equipment, and initiatives to spur their growth. However, this is not the reality for most of Main Street.

Through national polling conducted by Small Business Majority, small business owners have made clear that the current tax code is not working for them. In fact, 82% of small business owners agree that the current tax system favors large corporations over small businesses and 75% believe that wealthy individuals and large corporations don’t pay their fair share of taxes. Patrick Hall, owner of Elan Flowers in Manhattan, New York agrees that the tax code favors big businesses, stating that, “I believe in taxes and paying them. However, it’s unfair that my business pays more in taxes than large corporations that find a way to get around them.” Overall, small businesses feel disadvantaged by tax loopholes that disproportionately benefit larger and wealthier businesses.¹

¹ “Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms.” Small Business Majority. August 28, 2024. <https://smallbusinessmajority.org/our-research/taxes-budget-economy/opinion-poll-small-businesses-support-bottom-tax-reforms>

While proponents of the Tax Cuts and Jobs Act (TCJA) frequently claim that the driving factor of uncertainty on Main Street is the upcoming expiration of several of its provisions, falsely stating that a failure to extend these provisions will result in the “largest tax increase in history”, the current administration’s reckless actions, including the implementation of sweeping tariffs and decimation of federal agencies that support small businesses, has led to record levels of uncertainty among small businesses this year. In fact, the National Federation of Independent Businesses (NFIB) Uncertainty Index has reached record levels in Q1 and the net percent of business owners expecting better business conditions fell by 16 points in March, representing the largest decline since December 2020.²

Over the last three months, small business owners have been at the mercy of the Trump administration’s unpredictable tariff strategy that seemingly came to a front on April 2nd after the announcement of a new 10% tariff on all imports in addition to reciprocal tariffs on 60 countries. These new tariffs, not the expiration of the TCJA, will come to represent the largest tax increase on American businesses and consumers since 1968 and will leave small businesses with little to no choice but to pass along these price increases to consumers.³ In fact, recent Small Business Majority national polling found that more than half (53%) of small businesses are concerned about the impact of tariffs on their business and 77% are concerned about the impact on the larger economy.⁴ These rash economic decisions have put small businesses in an impossible position, as they are faced with imminent cost increases from tariffs while consumers pull back on spending on Main Street amid economic turmoil and plummeting stocks.

The following quotes from small business owners in our network underscore the uncertainty and fear that has been provoked by these reckless tariffs:

- **Shayai Lucero, owner of Earth and Sky Floral Designs and Gallery in Laguna, New Mexico** shared: “I operate a floral shop in New Mexico and have had to raise my prices. Most roses are imported from South America and now cost around \$2.00 per stem (wholesale) instead of \$0.99 due to the tariffs. I was able to maintain affordable pricing for the communities I serve for the last four years by absorbing costs where I can. However, I have recently had to increase costs by a minimum of \$5 just to stay afloat and I will still be taking a financial hit.”
- **Margo Clayson, founder and president of The Mighty Microgreen in Inkom, Idaho** shared “Tariffs are my biggest concern right now. I source everything I can locally, but some materials—like plastics—are simply not affordable in the United States. If I have to raise prices in response to my increasing costs, I know families will then have to make tough choices. No matter how great my product is, it’s likely to end up on the back burner in family budgets. And when it comes to immigration policy, I expect mass deportations would directly impact the farmers who supply the seeds I rely on. Living in a farming community, I see firsthand how generational family farms already struggle to find workers willing to do the back-breaking labor that farming demands. This isn’t just a challenge for my small business—it’s an issue that will affect all of us.”
- **Bill Stewart, owner of LI Toy & Game in Kings Park, New York** shared “I am the owner of a small toy store business and my wholesale costs are increasing across the board. There isn’t a single item in my shop that isn’t affected by these tariffs; I’m getting daily emails from wholesalers about tariff price increases and delays.

Board game manufacturers will be hit especially hard as board games cannot realistically be produced here in America. Creating the factory and buying equipment would take several years and it would require more financial resources than most publishers have. Small to mid-sized manufacturers are telling me they may not be able to stay in business as they will be forced not to

² “New NFIB Survey Small Business Optimism Slips.” National Federation of Independent Businesses (NFIB). April 8, 2025. <https://www.nfib.com/news/press-release/new-nfib-survey-small-business-optimism-slips/>

³ “Trump’s tariffs are largest US tax hike since 1968, JPM warns.” Reuters. April 3, 2025. <https://www.reuters.com/markets/us/trumps-tariffs-are-largest-us-tax-hike-since-1968-jpm-warns-2025-04-03/>

⁴ “Voice of Main Street: Entrepreneurs worry about impact of tariffs, other disruptive acts, prefer small business friendly policies.” Small Business Majority. February 5, 2025. <https://smallbusinessmajority.org/our-research/voice-of-main-street/small-businesses-concerned-about-impact-tariffs-prefer-small-business-friendly-policies>

distribute their products in the United States. Additionally, action figures cannot be made in America at evenly remotely competitive prices because they're hand painted at the factory. Those figures already cost between \$25 and \$40 per unit, while collector-quality figures cost over \$300. All of those prices would increase dramatically beyond what most consumers would be willing to pay.

I think many small toy stores could be forced out of businesses by these insane tariffs. Ultimately, tariffs will be terrible for the consumer, small businesses and corporations. Nobody wins here.”

Amidst this growing economic uncertainty, which will ultimately lead to decreased spending on Main Street and higher input costs for small businesses, it will become increasingly important for Congress to reevaluate how it can best support our nation's smallest businesses through meaningful tax reform that allows more small businesses to reinvest in and grow their businesses. While the upcoming expiration of several TCJA provisions has dominated this year's reconciliation negotiations, rushing to extend them without addressing their existing flaws would be shortsighted—and would fail to deliver the meaningful tax relief that our smallest businesses urgently need.

The expiration of the TCJA presents an opportunity to reform the Section 199A pass-through deduction to benefit true Main Street small businesses

Few examples better illustrate how the current tax code overlooks the needs of the smallest businesses than the Section 199A pass-through deduction, which was enacted through the TCJA and allows pass-through entities to deduct up to 20% of their Qualified Business Income (QBI) from federal taxes. Given that roughly 95% of small businesses as classified as pass-through entities, which include sole proprietorships, partnerships, LLCs, and S-Corporations, TCJA proponents claimed that this would provide relief to Main Street businesses.⁵ However, because the deduction is percentage-based, most small businesses—typically earning well under \$100,000 annually—see minimal benefit, while the largest and wealthiest pass-through entities claim deductions worth hundreds of thousands or even millions, further tilting the playing field against Main Street.

While many argue against the data, or simply choose to ignore it, the numbers clearly display time and time again that the deduction is not reaching the smallest businesses. 2022 Tax Policy Center data found that 69.2% of all pass-through deduction benefits flowed to the wealthiest 4.5% of business owners.⁶ What's more, while the richest pass-through entities claimed an average deduction of over \$1 million in 2021, claimants with adjusted gross incomes (AGI) below \$100,000, an income level that many small businesses fall within, took home an average deduction of just \$1,997.⁷ Indeed, the financial benefits for a pass-through entity earning a profit of more than \$500,000 are 20 times higher than the benefits for a business making \$75,000. An analysis conducted by the Joint Committee on Taxation found that in 2019, over 50% of the benefits claimed from the 199A deduction went to taxpayers with incomes of \$819,672 or more, further signifying that the current deduction is not reaching Main Street.⁸ This current approach, which effectively tells pass-through entities that the more they make, the more they can deduct, fails to prioritize the needs our nation's smallest businesses that would benefit greatly from a larger, simplified deduction that enables them to make impactful investments in their growth.

To ensure that our tax code reflects their needs, Small Business Majority has long advocated for replacing or reforming Section 199A to deliver bottom-up benefits. For example, small businesses could deduct up

⁵ “9 facts about pass-through businesses.” Brookings Institution. May 15, 2017. <https://www.brookings.edu/articles/9-facts-about-pass-through-businesses>

⁶ “Sources of flow-through business income by statutory marginal tax rate; current law, 2022.” Tax Policy Center. March 1, 2023. <https://www.taxpolicycenter.org/model-estimates/distribution-business-income-february-2023/t23-0028-sources-flow-through-business>

⁷ “The 2017 Tax Bill's Pass-Through Deduction Largely Favors the Wealthy and Encourages Gaming of the Tax Code,” Center for American Progress, 2024. <https://www.americanprogress.org/article/the-2017-tax-bills-pass-through-deduction-largely-favors-the-wealthy-and-encourages-gaming-of-the-tax-code/>

⁸ “Present Law And Background Regarding The Federal Income Taxation Of Small Businesses.” Joint Committee on Taxation. June 5, 2023. <https://www.jct.gov/publications/2023/jcx-10-23/>

to \$25,000, calculated on a business's AGI, thus benefiting very small businesses rather than continuing to deliver inequitably distributed top-down tax breaks that have primarily flowed to the top 4.5% of pass-through entities. Under this proposal, the smallest businesses, specifically the vast majority with a net income of less than \$125,000 per year, would benefit.⁹ This deduction should be accompanied by a phase-out for business owners with over \$400,000 in income to ensure it benefits the entities most in need. Notably, small businesses see this proposal as a viable path forward. Our polling found that 2.5 times more pass-through small business owners support vs. oppose such a change (53-22%).¹⁰

Beyond the TCJA: Maintaining key tax credits to ensure small business access to quality affordable healthcare

In addition to the imminent cost increases driven by newly imposed, steep tariffs on nearly all of our nation's trading partners, small business owners and their employees continue to grapple with rising healthcare costs—further straining businesses' ability to grow. In annual polling conducted by Small Business Majority, small business owners consistently rank the rising cost of healthcare as one of the top barriers to their sustainability and growth. If Congress is serious about supporting small businesses through the tax code, lawmakers must look beyond TCJA and consider how existing tax credits and deductions, which help small business owners bring down their out-of-pocket healthcare costs, can be extended to enhance the economic well-being of America's entrepreneurs.

For the millions of small businesses that cannot afford to offer employer-sponsored healthcare coverage, the Affordable Care Act (ACA) Marketplace provides affordable coverage options to millions of small business owners and self-employed entrepreneurs annually. In fact, over half of all Marketplace enrollees are either small business owners, self-employed entrepreneurs, or small business employees.¹¹ In 2022 alone, 2.7 small business owners and 1.7 self-employed entrepreneurs received coverage through the ACA Marketplace, representing 28% of all Marketplace enrollment.¹²

The increasing number of small business owners and self-employed entrepreneurs receiving coverage through the Marketplace has largely been result of the temporary enhancements made the ACA's premium tax credit (PTC) which helps lower out-of-pocket premium costs for individuals and families who purchase coverage through the Marketplace. These enhanced PTCs, which were first enacted in 2021 through the American Rescue Plan Act (ARPA) and later extended through 2025 by the Inflation Reduction Act (IRA), expanded eligibility to individuals with income levels above 400 percent of the federal poverty line, an income level into which many small business owners fall. In 2022, over 2.7 million small business owners and self-employed entrepreneurs claimed the PTC, including roughly 285,000 individuals who would not have been eligible for the tax credit if not for the enhancements.¹³

To ensure millions of Americans, including small business owners, entrepreneurs and their employees, can continue to access lower premium costs through the ACA, Small Business Majority urges Congress to extend, or make permanent, tax credit enhancements included in the IRA before they expire in 2025. Recent Small Business Majority polling found that nearly 7 in 10 small business owners support extending

⁹ *The average small business profit is less than \$71,000 annually. "How Much Do Small Business Owners Make? The Answer May Surprise You" Patriot Software. August 13, 2024. <https://www.patriotsoftware.com/blog/accounting/how-much-do-small-business-owners-make-average-income>

¹⁰ "Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms." Small Business Majority. August 28, 2024. <https://smallbusinessmajority.org/our-research/taxes-budget-economy/opinion-poll-small-businesses-support-bottom-tax-reforms>

¹¹ "Small businesses see significant gains from the ACA." Small Business Majority. October 16, 2018. <https://smallbusinessmajority.org/our-research/healthcare/small-businesses-see-significant-gains-aca>

¹² "Affordable Care Act Marketplace Coverage for the Self-Employed and Small Business Owners." U.S. Department of the Treasury Office of Tax Analysis. September 20, 2024. <https://home.treasury.gov/system/files/131/ACA-Mkt-Coverage-Self-Employed-Small-Business-Owners-09232024.pdf>

¹³ Ibid.

these enhancements.¹⁴ If Congress fails to act, nearly 4 million Americans will become uninsured, and premium costs will skyrocket by 25-100% for eligible Marketplace enrollees.¹⁵ The extension of the enhanced premium assistance will continue to keep health insurance premium costs affordable and expand access to coverage through the ACA Marketplace for entrepreneurs, providing them with the increased capacity to grow and expand their enterprises.

Congress should prioritize raising revenue and investing in small businesses rather than slashing the programs that support entrepreneurial growth

While many lawmakers have claimed that extending TCJA through the reconciliation process will be a boost for small businesses, the recently approved budget resolution rather threatens to strip funding and resources away from the programs that support small business owners and their employees, including Medicaid and the ACA's enhanced PTCs. These drastic spending cuts are being used to offset more than \$5 trillion in tax breaks that do nothing to address the shortcomings of our tax system for Main Street. Instead, they continue to prioritize wealthy individuals and large corporations—leaving America's small businesses to foot the bill.

Rather than slashing funding for programs that support small business owners and entrepreneurs to extend unbalanced tax breaks for large corporations, Congress should invest in the agencies and initiatives that provide the training, technical assistance, and financing essential for nationwide entrepreneurial growth. This cannot be achieved without implementing some form of the revenue raising provisions outlined below, which guarantee that the wealthiest corporations and individuals contribute fairly to the tax system, relieving small businesses of the disproportionate burden they currently bear.

- **Increase the corporate tax rate:** The TCJA gave large C-corporations another unnecessary tax cut when it permanently lowered the domestic corporate tax rate from 35% to 21% - lower than the rate paid by many pass-through small businesses. This further reduced the tax liability of our nation's largest businesses. Since only 5% of small businesses are organized as C-corporations, this tax cut has had minimal positive impact on small businesses. Our recent poll found that a majority of small business owners support increasing the corporate tax rate to 28% to generate revenue.¹⁶
- **Protect increased funding for the IRS that supports revenue collection and tax filing assistance:** As our tax code has become increasingly exploited by individuals and corporations that game the system to avoid paying their fair share in taxes, a trend that has been compounded by the enactment of the TCJA, it is paramount that the Internal Revenue Service (IRS) be equipped with the adequate funding and resources necessary to close the annual tax gap of roughly \$700 billion.¹⁷ When asked if they would support continued additional funding for the IRS, our research found that more than half of small business owners support additional funding to ensure the agency can fulfill its essential functions. A vast majority think that the IRS needs more funding to properly improve customer service (85%), audit large corporations (82%) and provide tax filing assistance (81%). Additionally, entrepreneurs strongly believe that the IRS needs more funding to audit wealthy taxpayers (79%), audit individuals (67%) and audit small

¹⁴ "Voice of Main Street: Entrepreneurs worry about impact of tariffs, other disruptive acts, prefer small business friendly policies." Small Business Majority. February 5, 2025. <https://smallbusinessmajority.org/our-research/voice-of-main-street/small-businesses-concerned-about-impact-tariffs-prefer-small-business-friendly-policies>

¹⁵ "Enhanced Premium Tax Credits for ACA Health Plans: Who They Help, and Who Gets Hurt If They're Not Extended." The Commonwealth Fund. February 18, 2025. <https://www.commonwealthfund.org/publications/explainer/2025/feb/enhanced-premium-tax-credits-aca-health-plans>

¹⁶ "Survey Toplines - Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms." Small Business Majority. August 28, 2024. <https://smallbusinessmajority.org/sites/default/files/research-reports/2024-august-tax-survey-toplines.pdf>

¹⁷ "IRS updates tax gap projections for 2020, 2021; projected annual gap rises to \$688 billion." Internal Revenue Service. October 12, 2023. <https://www.irs.gov/newsroom/irs-updates-tax-gap-projections-for-2020-2021-projected-annual-gap-rises-to-688-billion>

businesses and self-employed individuals (67%).¹⁸ We urge Congress to reject any further proposed cuts to the IRS and continue to provide additional funding which will empower the agency to recover lost revenue to pay for the tax cuts we propose in this document.

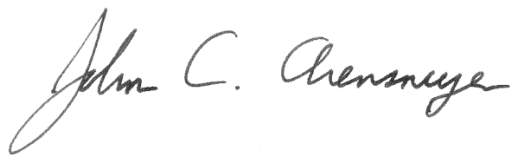
- **Closing offshore tax loopholes:** According to the Joint Committee on Taxation, the TCJA’s provision taxing foreign profits of U.S. multinationals at a lower rate than the rate that applies to domestic profits will cost more than \$200 billion in revenue through 2027.¹⁹ This system has allowed a few multinational corporations to continue funneling their profits to the lowest-taxation foreign jurisdictions. Small business owners strongly support closing offshore tax loopholes. In fact, 77% of small business owners agree that large corporations unfairly leverage their foreign presence to reduce their U.S. tax liability.²⁰ To ensure large, multinational corporations pay the same tax rate on profits earned abroad as they do in the U.S., we urge Congress to enact the No Tax Breaks for Outsourcing Act, which would be a significant first step in bringing much needed parity to the tax code. Small Business Majority’s national polling found that 71% of small business owners support setting a minimum tax rate of 21% on corporate offshore profits.²¹

It’s time for Congress to make the tax code work for Main Street

It is well understood that this year’s reconciliation package will carry significant implications for millions of small businesses nationwide. Congress faces a clear choice: blindly extend TCJA provisions that have failed to deliver meaningful relief to millions of the smallest businesses or seize this opportunity to address the tax code’s shortcomings and pursue reforms that provide greater, more impactful support to the small businesses that need it the most.

At a time in which small businesses are facing growing economic uncertainty and scaled back investments in the federal agencies and programs that support their prosperity, we urge Congress to consider the proposals outlined in this testimony which prioritize the economic wellbeing and growth of America’s small business community. We thank the House and Senate Small Business Committees for holding this important hearing, and we look forward to working together to advance meaningful tax reform that supports Main Street businesses. For any questions or additional information, please contact our Government Affairs Director, Alexis D’Amato, at adamato@smallbusinessmajority.org.

Sincerely,



John Arensmeyer
Founder & CEO
Small Business Majority

¹⁸ “Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms.” Small Business Majority. August 28, 2024. <https://smallbusinessmajority.org/our-research/taxes-budget-economy/opinion-poll-small-businesses-support-bottom-tax-reforms>

¹⁹ “CBO Estimates TCJA Extensions Could Cost Up to \$2.7 Trillion.” Committee for a Responsible Federal Budget. June 28, 2022. <https://www.crfb.org/blogs/cbo-estimates-tcja-extensions-could-cost-27-trillion>

²⁰ “Survey Toplines - Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms.” Small Business Majority. August 28, 2024. <https://smallbusinessmajority.org/sites/default/files/research-reports/2024-august-tax-survey-toplines.pdf>

²¹ “Survey: Small businesses support tax reforms to pay for robust infrastructure investments.” Small Business Majority. June 8, 2021. <https://smallbusinessmajority.org/our-research/infrastructure/survey-small-businesses-support-tax-reforms-pay-robust-infrastructure-investments>