

October 15, 2024

The Honorable Lloyd Smucker
Committee on Ways and Means
Chair, Main Street Tax Team
1139 Longworth House Office Building
Washington D.C. 20515

Dear Representative Smucker and members of the House Ways and Means Committee's Main Street Tax Team:

As a leading representative of America's 34 million small businesses, Small Business Majority is pleased to submit our comments to the House Committee on Ways and Means' Tax Teams regarding the impact of the 2025 tax debate on America's small business community.

Small Business Majority is a national small business organization that empowers America's diverse entrepreneurs to build a thriving and equitable economy. From our 10 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.

For nearly two decades, we have examined the reality of how taxation affects America's small businesses and have effectively advocated for policies that support a resilient economy. Our research has combined analyses of tax policies' impacts on Main Street, along with scientific research into small business needs and attitudes.

Small Business Majority's scientific research has found time and again that small businesses feel that today's tax code puts them at a significant disadvantage when compared to the larger business influencers of America. In a national opinion poll we conducted in August 2024, 82% of respondents agreed that the nation's tax system favors larger corporations over their small business.

While the United States experiences a historic small business renaissance, where a record 19 million Americans filed to start a business in recent years, more must be done to support their growth, with a focus on the smallest businesses and those in the most under-resourced communities. Ensuring that these businesses contribute to future tax discussions will guarantee their continued success. We thank the Committee for kicking off this historic debate by soliciting feedback from the small business community. We hope that these comments serve as a starting point for discussion impacting tax policy in 2025 and beyond. We welcome the opportunity to discuss these ideas further.

Expiring TCJA provisions and opportunities for reforms in 2025

A cornerstone of today's Main Street tax debate centers around the expiration of the 2017 Tax Cuts and Jobs Act (TCJA). Extending the TCJA outright will not improve tax fairness for the smallest businesses. While the TCJA was written with the purported intent to propel entrepreneurs and small businesses forward, particularly through the enactment of the Section 199A pass through tax deduction, small businesses have not benefitted equally.

With certain tax provisions expiring at the end of 2025, we now have a historic opportunity to enact innovative tax reforms that would deliver tax relief for America's smallest businesses.

1. Bottom-up reform to Sec. 199A: A third approach to the "extend versus end" debate.

While the Section 199A pass-through deduction has been touted by lawmakers as a saving grace for small businesses, this particular provision did not provide equitable tax relief for many of our nation's smallest

businesses, with the bulk of benefits inuring disproportionately to a small sliver of the largest passthrough entities. Given that 95% of small businesses are classified as pass-through entities, which include sole proprietorships, partnerships, LLCs, and S-Corporations, many believed the deduction would provide immediate relief to Main Street businesses.¹ However, based on 2022 Tax Policy Center data, 69.2% of all pass-through deduction benefits flow to the wealthiest 4.5% of businesses.² Moreover, while the wealthiest passthrough entities claimed an average deduction of over \$1 million in 2021, claimants with adjusted gross incomes (AGI) below \$100,000 took home an average deduction of just \$1,997.³ The concentration of pass-through income at the top has resulted in the concentration of deductions by the highest-earning business owners. A further example: Taxpayers with more than \$1,000,000 in Adjusted Gross Income (AGI) claimed over one-third of the deductions.⁴ The forthcoming expiration of the 199A pass-through deduction, presents a critical opportunity for impactful reform that can have a direct benefit to small businesses and self-employed individuals. Without reform, small businesses that retain even a marginal benefit from the 20% deduction as it currently stands simply will not receive enough savings to grow or invest back in their businesses.

To ensure our tax code reflects the needs of America’s smallest businesses that keep our economy running, we propose replacing or reforming the 199A deduction to function in a way that promotes a level playing field for Main Street. For example, small businesses could deduct their first \$25,000 of qualifying business income (QBI), thus benefiting the smallest businesses rather than continuing to provide unevenly distributed top-down tax breaks that only help a select few. Under this proposal, the smallest businesses, specifically those earning a net income less than \$125,000 per year, would benefit. This deduction should be accompanied by a phase-out for business owners with \$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 national polling revealed that more than half (53%) of small businesses that aren’t C-corporations support this change.⁵

We encourage the Committee to consider this proposal and to get serious about passing legislation that stimulates the economy at the very bottom, which would provide simplified and streamlined tax relief to millions of small businesses, giving them the ability to save and invest back into their businesses to grow their operations. Continuing 199A outright without any consideration for many smaller businesses would be a missed opportunity for Main Street.

2. Considerations for provisions approved by the House in the Tax Relief for American Workers and Families Act

While the upcoming tax policy debate will inevitably center around the expiration of the 199A deduction, Congress has an opportunity to enact additional tax reforms to expand opportunities for investment and innovation among small businesses. Specifically, many of the provisions included in the Tax Relief for American Families and Workers Act (TRAFWA) would have delivered real benefits to our nation’s small businesses by restoring immediate expensing for research and development (R&D or in some cases, R&E) costs, expanding the Section 179 business deduction, and increasing the 1099 reporting threshold.⁶

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

² “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>

³ “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/>

⁴ “How do business owners respond to a tax cut? Examining the 199A deduction for pass-through firms.” Columbia Law School. https://www.law.columbia.edu/sites/default/files/2023-03/Goodmanetal_199A_Deduction_2022.pdf.

⁵ “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>

⁶ “H.R.7024 - Tax Relief for American Families and Workers Act of 2024” <https://www.congress.gov/bill/118th-congress/house-bill/7024>

Not only would these provisions offer much needed tax relief to small businesses, but they also play a critical role in incentivizing small businesses to invest in the continued innovation and growth of their enterprises, whether that be through R&D or the purchase of new equipment. According to recent Small Business Majority data, more than 64% of small businesses have claimed the R&D credit.⁷

The TRAFWA was a step in the right direction for providing small businesses with the simplified and expanded tax relief necessary to grow their operations. While Small Business Majority was pleased to see the House pass this legislation in an overwhelmingly bipartisan vote in January, we urge Congress to prioritize certain provisions that directly impact small businesses in future negotiations.⁸ For example, we support expansions granted to Section 179 expensing, which allows businesses to deduct a set dollar amount of new business assets (i.e. equipment, machinery, software, etc.). This would give small businesses a more flexible and immediate deduction option for new investments made in the same tax year in which the asset was purchased. Additionally, increasing the 1099 reporting threshold from \$600 to \$1,000 would further allow the smallest businesses to hire contract workers for short-term or small-scale projects without the added administrative and compliance burdens. Given that the current \$600 threshold has been in place for decades, an increase is long overdue to better align with the current economic landscape.

As next year's negotiations present a critical opportunity to implement bottom-up tax reform that targets relief to the small businesses that need it the most, we encourage Congress to consider these bipartisan provisions which will better enable small businesses to compete on a level playing field with their larger counterparts.

Beyond the TCJA: Additional policies that Congress should consider including as a cornerstone of the 2025 tax push

While the forthcoming expiration of the TCJA and re-consideration of many provisions within TRAFWA have already sparked debate on what tax reforms might have the greatest impact on small businesses, there are several additional barriers small businesses face, including access to affordable healthcare and childcare, which can be addressed through equitable tax reform. If Congress is serious about supporting small businesses through the tax code, members must also consider how existing tax credits and deductions, not included in TCJA or TRAFWA, can be improved to expand access to affordable healthcare which is an essential component to the continued growth and development of any small businesses.

Support small businesses with access to better healthcare coverage by continuing and extending tax benefits

A recent Small Business Majority national poll found that most small business owners who offer health coverage to their employees have seen their costs increase over the last few years. These cost increases have led some businesses to cut other employee benefits, move to insurance plans that offer more limited coverage, or drop healthcare coverage altogether.⁹ As the cost of providing healthcare skyrockets, Congress should consider the following improvements to our tax code.

- **Make ACA Premium Tax Credit improvements permanent:** The Premium Tax Credit (PTC), which was established through the enactment of the Affordable Care Act (ACA), helps eligible individuals and families cover the cost of premiums for health insurance purchased through ACA marketplaces. In 2021, the American Rescue Plan Act (ARPA) increased the amount of these tax credits for those who were already eligible while also expanding eligibility for the 2021-2022 tax years to individuals with income

⁷ "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>

⁸ "Small businesses support bipartisan efforts to reform the tax code." Small Business Majority. February 1, 2024.

<https://smallbusinessmajority.org/press-release/small-businesses-support-bipartisan-efforts-reform-tax-code>

⁹ "Opinion poll: Small businesses struggling with rising healthcare costs, support bipartisan policy solutions." Small Business Majority. February 21, 2024. <https://smallbusinessmajority.org/our-research/healthcare/small-businesses-struggling-rising-healthcare-costs-support-bipartisan-policy-solutions>

levels above 400% of the federal poverty line, an income level into which many small business owners fall. The Inflation Reduction Act (IRA) later extended the temporary exception through the 2025 tax year. These enhanced PTCs have cut premium payments by an estimated 44% (\$705 annually) for marketplace enrollees and expanded access to the credit and healthcare coverage overall.¹⁰ In 2024, a record qualified for PTCs and 21.4 million people signed up for ACA marketplace coverage.¹¹ With more than half of all ACA marketplace enrollees being either small business owners, solo entrepreneurs or small business employees, and given that small business owners and self-employed workers are three times more likely to rely on the ACA marketplace for coverage, these improvements have been nothing short of a gamechanger for the small business ecosystem.^{12 13}

To ensure millions of Americans, including small business owners, entrepreneurs and their employees, can continue to access lower premium costs through the PTC infrastructure, Small Business Majority urges Congress to make the tax credit enhancements included in the IRA permanent before they expire in 2025. If Congress fails to act, nearly 4 million Americans will become uninsured, and the average premium payment will increase by a staggering 93% from \$672 per year to \$1,296 per year in 2026.¹⁴ The permanency of the IRA's premium assistance will continue to cut health insurance premium costs and expand access to coverage through the ACA Marketplace for entrepreneurs, providing them with the increased capacity to grow and expand their enterprises.

- **Allow self-employed individuals to deduct healthcare costs from FICA tax obligations:** Self-employed entrepreneurs still must pay taxes on income used to purchase health insurance. We urge Congress to pass healthcare tax reforms for the self-employed so that they can deduct their healthcare expenses from their FICA tax obligations. Currently, self-employed entrepreneurs are paying 15.3% for healthcare (12.4% for Social Security and 2.9% for Medicare), including the income spent on healthcare plans.

Pay-fors: Small businesses support revenue raisers to offset investments on Main Street

Small businesses have long represented the underpinning of not only our local communities, but the continued success and innovation of our national economy. As the small business ecosystem continues to grow, it is critical that we continue to provide the required investments and resources necessary to supporting the growth and development of both new and established businesses.¹⁵ However, several TCJA provisions, including the cut to the domestic corporate tax rate and expanded international tax loopholes, have decreased revenue and restricted our ability to invest in the programs that small businesses rely on to start, scale and improve their business.

Recovering lost revenue from the exploitation of corporate and international tax loopholes presents an opportunity to bolster domestic federal programs (and future tax cuts) that are critical to small business growth. Small businesses support multiple levers that could be used to generate revenue and fund these investments and initiatives.

¹⁰ "Inflation Reduction Act Health Insurance Subsidies: What is Their Impact and What Would Happen if They Expire?" KFF. July 26, 2024. <https://bit.ly/3U9VHE5>

¹¹ "Health Insurance Costs Will Rise Steeply if Premium Tax Credit Improvements Expire." Center on Budget and Policy Priorities. June 4, 2024. https://www.cbpp.org/research/health/health-insurance-costs-will-rise-steeply-if-premium-tax-credit-improvements-expire#_ftn3

¹² "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>

¹³ "Affordable Care Act Marketplace Coverage for the Self-Employed and Small Business Owners." U.S. Department of the Treasury. September 2024. <https://home.treasury.gov/system/files/131/ACA-Mkt-Coverage-Self-Employed-Small-Business-Owners09232024.pdf>

¹⁴ Ibid.

¹⁵ "Statement from President Joe Biden on a Record 19 Million New Business Applications." The White House. August 14, 2024. <https://www.whitehouse.gov/briefing-room/statements-releases/2024/08/14/statement-from-president-joe-biden-on-a-record-19-million-new-business-applications/>

- **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 2027.¹⁶ This system has allowed a few multinational corporations to continue funneling their profits to the lowest-taxation foreign jurisdictions. Small business owners recognize the need to close 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.¹⁷ 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 national polling found that 71% of small business owners support setting a minimum tax rate of 21% on corporate offshore profits.¹⁸
- **Increase the corporate rate:** In addition to the expansion of the offshore tax loophole, the TCJA gave larger C-corps another unnecessary tax cut when it permanently lowered the domestic corporate tax rate from 35% to 21% further reducing the tax liability of our nation’s largest businesses. Since most small businesses are not organized as C-corporations, this tax cut has had virtually zero positive impact on small businesses. Our recent poll found that 52% of small business owners support increasing the corporate tax rate to 28% to generate revenue.¹⁹
- **Allow the IRS to access funds needed to enforce revenue raisers and serve small businesses:** As our tax code has become increasingly exploited by individuals and corporations that aim to 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) is equipped with the adequate funding and resources necessary to close the annual tax gap of roughly \$700 billion.²⁰ 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 businesses and self-employed individuals (67%).²¹ 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.

These recommendations, all of which supported by small business owners nationwide, would play an outsized role in generating revenue and leveling the playing field for small businesses who simply do not have the in-house capacity, tax expertise, or legal counsel to help them manipulate tax loopholes to their advantage.

¹⁶ “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>

¹⁷ “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>

¹⁸ “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>

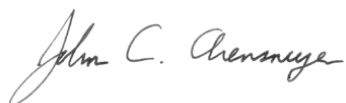
¹⁹ “Congress Should Revisit 2017 Tax Law’s Trillion-Dollar Corporate Rate Cut in 2025.” Center for Budget and Policy Priorities. March 21, 2024. https://www.cbpp.org/research/federal-tax/congress-should-revisit-2017-tax-laws-trillion-dollar-corporate-rate-cut-in#_edn5

²⁰ “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>

²¹ “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>

In closing, we appreciate the opportunity to provide comments on the historic 2025 tax debate, of which the outcome will shape the future of the American tax code, impacting small businesses and the overall economy. For any questions or additional information, please contact Government Affairs Director Alexis D'Amato at adamato@smallbusinessmajority.org. We would welcome a meeting with your team to discuss these issues in greater depth and to engage in a dialogue on ways we can support fostering tax reform that provides substantial relief to American's Main Street community.

Sincerely,

A handwritten signature in cursive script that reads "John C. Arensmeyer". The signature is written in black ink and is positioned to the left of the typed name.

John Arensmeyer
Founder & CEO
Small Business Majority