



Opinion Poll

Small businesses support bottom-up tax reforms

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Introduction

Lawmakers in Washington, D.C. are considering tax reforms as the 2017 tax cuts in the Tax Cuts and Jobs Act (TCJA) are set to expire in 2025, and potential changes will have profound impacts on small businesses. Currently, businesses that are not C-corporations can exclude 20% of their pass-through business income from federal income tax. As Congress debates the future of this tax deduction and other provisions from TCJA, it's important that they take into consideration the perspective of America's job creators.

Small Business Majority's new national opinion poll of small businesses reveals that they believe they're not competing on a level playing field in the federal tax system with large corporations. While many small business owners are aware of and take advantage of the 20% pass-through deduction, the benefits of this deduction are skewed in favor of a small number of the wealthiest businesses ([4.5% receive almost 70% of the benefit](#)).¹ As a result, they support several reforms, including a fixed standard deduction. Additionally, entrepreneurs support maintaining increased IRS funding so that they can properly execute their mission to improve customer service and increased audits of wealthy taxpayers and large corporations. This survey is part of Small Business Majority's broader effort to understand the various ways in which tax reforms would impact or present opportunities for small businesses.

While various proposed tax reforms are being considered, Congress must take the smallest businesses' needs into account. Implementing tax policies that provide bottom-up benefits to small businesses through equitable deductions and tax rates is critical to their success. Moreover, additional funding for the Internal Revenue Service (IRS) will help modernize its services for small business owners and fairly enforce the federal tax system.

Key findings

- **Small businesses believe that the tax system favors large corporations**, with 82% agreeing and 54% strongly agreeing. Three-quarters also agree that wealthy individuals and large corporations don't pay their fair share of taxes.
- **Small businesses take advantage of the 20% pass-through deduction**, with 64% of non-C-corporations claiming the deduction in their most recent tax filing. Fewer BIPOC-owned businesses (59%) have claimed the deduction compared to white-owned businesses (74%).
- **However, small businesses are open to proposed changes**, with 53% supporting a proposed change to implement a fixed standard business deduction that would allow business owners to deduct the first \$25,000 in net business income each year.² Only 22% oppose the proposal.
- **Small business owners support reforms that would make wealthy individuals and large corporations pay more in taxes.** A majority of small businesses (52%) support increasing the corporate tax rate to 28%, and 54% of small business owners would support an increased capital gains tax.
- **Half of the respondents agree that the IRS needs continued additional funding**, and a large majority believe that additional funding is needed to properly audit large corporations (82%) and wealthy taxpayers (79%).

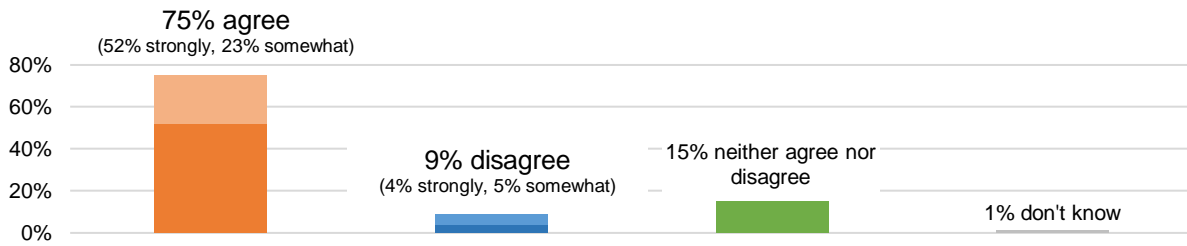
¹ "Sources of Flow-Through Business Income by Statutory Marginal Tax Rate; Current Law, 2022," Tax Policy Center, 2023, <https://www.taxpolicycenter.org/model-estimates/distribution-business-income-february-2023/t23-0028-sources-flow-through-business>

² "Fostering a Level Playing Field - The Small Business Case for Equitable Tax Reform, Small Business Majority, 2024, <https://smallbusinessmajority.org/sites/default/files/2024-small-business-case-equitable-tax-reform.pdf>

Small businesses believe tax system favors large corporations

While small business owners have mixed opinions on the federal tax system, a vast majority believe that they're not competing on a level playing field with large corporations. More than 8 in 10 (82%) agree that the tax system favors large corporations over small businesses like theirs, with a majority (54%) strongly agreeing. Three-quarters of small business owners agree that wealthy individuals and large corporations don't pay their fair share of taxes, with a majority (52%) strongly agreeing. Furthermore, they believe (76%) that large corporations unfairly leverage their foreign presence to reduce their U.S. tax liability.

Figure 1: Wealthy individuals and large corporations don't pay their fair share of taxes



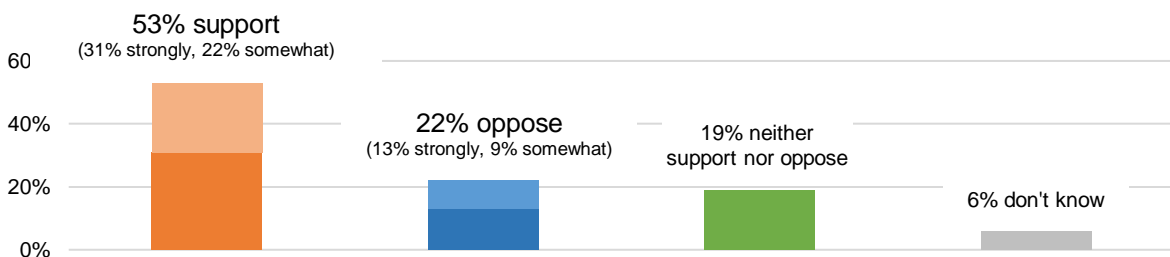
However, small business owners believe that tax cuts create opportunities for all businesses. Forty-two percent agree that reducing taxes for large businesses allows them to create more jobs, and 54% agree that providing small businesses with tax breaks allows owners to reinvest in their company. Although entrepreneurs do think tax cuts are important, a large majority (74%) agree that decreasing the federal deficit is more important.

Small businesses support pass-through income reform

Respondents have organized their business in multiple ways. One quarter of those who responded to the poll are sole proprietorships, 23% are partnerships, 22% are limited liability corporations, 18% are C-corporations and 11% are S-corporations. Of the small businesses that are not C-corporations, more than three-quarters (76%) are aware of the 20% deduction for most pass-through business income. Sixty-four percent of non-C-corporations businesses claimed the 20% pass-through deduction in their most recent tax filing, while 21% didn't and 6% have recently started their business and therefore couldn't claim it. Fewer BIPOC-owned businesses (59%) have claimed the deduction compared to white-owned businesses (74%).

With the upcoming tax debate in 2025, the 20% pass-through deduction could be reformed to better support the smallest businesses. One potential reform would be a fixed standard business deduction that would allow business owners to deduct the first \$25,000 in net business income each year. This would benefit small businesses with net income less than \$125,000 per year, which make up the majority of businesses in the U.S. More than half (53%) of small businesses that aren't C-corporations support this change, with 31% strongly supporting it. Only about 2 in 10 (22%) small businesses oppose this change.

Figure 2: Small business owners support a fixed standard business deduction



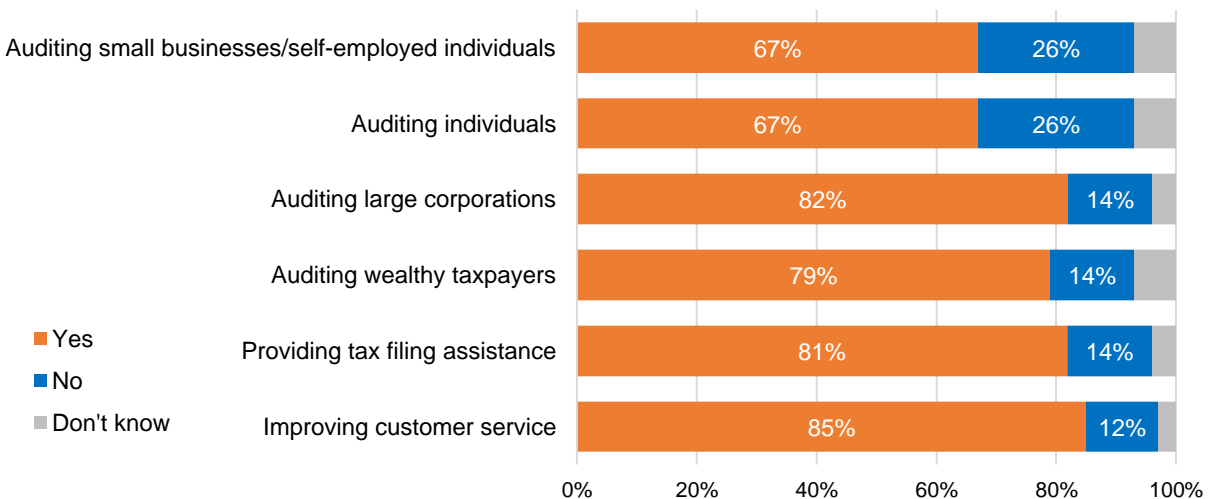
Small businesses support tax reforms and increased IRS funding

Beyond the potential changes to the 20% pass-through deduction, Congress can reform the federal tax system in other ways. The current corporate tax rate is 21%—which only applies to C-corporations—and it was permanently reduced from 35% in the 2017 Tax Cuts and Jobs Act. There are varying proposals to increase or decrease the corporate tax rate. More than half of small businesses (52%) support increasing the corporate tax rate to 28% and 19% support maintaining the current rate. Only 21% favor lowering the corporate tax rate to 15%.

Small businesses are also generally supportive of changes that would increase taxes on wealthy individuals. Capital gains are currently taxed at a rate of up to 20%, and there are proposals to increase the capital gains tax rate for individuals with more than \$1 million in income. More than half (54%) of small business owners would support this increase, and only 28% would oppose an increase. Currently, estates valued under \$13.61 million (\$27.22 million for married couples) are not taxed. Entrepreneurs have mixed views on the estate tax: 22% think it should be eliminated, 27% think it should remain the same, 23% think it should be lowered and 21% think it should be raised.

Furthermore, the IRS is critical to a functioning tax system. The 2022 Inflation Reduction Act provided \$80 billion in additional funding for the IRS to improve customer service, aid tax filers and step up audits of wealthy individuals and companies. There are proposals to extend this funding, and half of small businesses (51%) would support continued additional IRS funding. Thirty percent would oppose continued additional funding. The IRS fulfills several functions, and small businesses believe that the agency needs additional funding to properly execute them. 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 also 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%).

Figure 3: Small business owners support additional funding for some IRS functions



Conclusion

While some have claimed that the 20% pass-through deduction has been a boon for small business, most businesses support a bottom-up approach such as a fixed standard business deduction instead of the current formulation that favors a few well-heeled enterprises over Main Street. In short, small businesses want a more equitable tax system, with increased tax rates for wealthy individuals and C-corporations, along with more IRS funding to properly enforce the tax system. As Congress considers tax reforms in 2025, it's important that small business owners' views on tax fairness are front and center.

Methodology

This poll reflects a survey of 588 small business owners from SurveyMonkey's online small business panel, conducted between July 9-15, 2024. The margin of error is +/-4%.

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