



**Statement for the Record
Submitted to the Ways and Means Committee
Subcommittee on Select Revenue
United States House of Representatives
Washington, D.C.**

**Hearing on:
Small Business and Pass-Through Entity Tax Reform Discussion Draft**

**Submitted by Kristie Arslan
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May 15, 2013**

The National Association for the Self-Employed (NASE) respectfully submits this official statement for the record regarding the small business discussion draft related to reducing the burden the tax code imposes on small businesses.

BACKGROUND

The NASE represents the 22 million self-employed and micro-business owners (10 employees or fewer), providing business skills education and cost-saving benefits for those looking to start and grow their businesses. Founded in 1981, the association has been the sole voice advocating for America's smallest businesses in all areas of public policy, especially in the area of the tax inequities faced by the self-employed, for the past 30 years.

At present, there are roughly 27 million small businesses nationwide, ranging from 1 to 499 employees and of those, **22 million are identified as self-employed, accounting for more than 79 percent of the entire small-business community, generating roughly \$950 million dollars annually in sales** (2010 *Non-Employer Statistics, U.S. Census Bureau*). The majority of our members, roughly 56 percent, have their business organized as a sole-proprietorship, and thus any significant tax reform in the corporate area will have little if any impact on the self-employed.

On behalf of our members, of which 78 percent indicated overwhelming support in a 2012 survey on tax reform, the NASE is in favor of comprehensive tax reform, in order to create a simplified tax code that treats all businesses fairly while also removing unnecessary hurdles and streamlining a cumbersome and overwhelming tax filing process. So strong is the call for reform that in 2012, 96 percent of our members deemed individual and corporate tax reform as a "very important or moderately important" issue for Congress to address in 2013.

SMALL BUSINESS AND PATH-THROUGH ENTITY DISCUSSION DRAFT

The NASE fully understands that the Ways and Means small-business draft is not inclusive of all potential recommendations for reform, but we are concerned that the draft seems to be **completely void of any proposals that would address the continued disparity faced by the self-employed under the current tax code**. In blunt terms, only one of the four components has any bearing on the self-employed community, *Unified Deduction for Start-Up and Organizations Expenses*. And it is ironic that the framework for the unified deduction is included in H.R. 886, *Small Business Tax Relief Act of 2013*, which includes an additional six other tax measures that the small-business draft overlooks (**Note:** the small business draft does include the permanent expensing provision which is included in H.R. 866).

NASE PROPOSED RECOMMENDATIONS

The following are additional tax proposals put forth by the NASE:

1. Deduction of health insurance costs for the self-employed as a qualified business expense by adding a line item on the Schedule C form and not on page one of Form 1040;
 - The biggest tax inequity faced by the self-employed continues to be their inability to deduct the cost of the health insurance as a qualified business expense. This amounts to roughly \$1,800 in additional taxes per year for self-employed individuals.
2. Amend the definition of “employee” to include the owner and spouse of a sole proprietorship, or a 2 percent or greater shareholder in an S Corporation – a simple legislative or administrative fix to current language;
 - This would address many issues related to “fringe benefits,” for example: the applicability of an HRA 105 plan, retirement plan contributions, and health insurance premiums.
3. Simplified and streamlined definition of independent contractor versus employee by expanding the Form 1099 that requires the owner and contractor to agree to their business relationship in a transparent manner;
 - Reduction of abuse by business owners and their use of independent contractors.
4. Simplified depreciation calculators, reporting requirements, and accelerated options for most standard business items and amounts, all of which would be included as a line on the Schedule C form;
 - In developing simplified deduction calculators, the business owner would be able to easily apply for the correct deduction amount and simplify a process that is currently unnecessarily complicated.

5. Building off the simplified home office deduction, identify other areas to establish standard deduction options based on industry and location, resulting in the development of a Standard Schedule C-EZ form.
 - Recognizing the difficulty in creating standard deductions, we believe that if the necessary time and energy were directed towards creating such a system, the taxpayer would benefit enormously. This has the opportunity to becoming the greatest tool towards simplifying the tax code for small business owners.

All of the above proposals meet the criteria of creating a lean, simplified, equitable tax code – inspiring entrepreneurship and growth within the small-business community.

While we don't want to over-simplify the impact of these changes, we do believe it is important to note that we would encourage the Ways and Means Committee to be bold in their actions.

JOINT COMMITTEE ON TAXATION REPORT

With the release of the Joint Committee on Taxation report last week, the NASE was pleased to see that many of our proposed recommendations were highlighted. We appreciated the reports deliberate nature to identify proposed changes for sole-proprietorships, in essence the NASE believes that the three items highlighted in the report provide a great starting point for creating an equitable tax code for America's self-employed:

- Raise the self-employment exemption amount to the standard deduction amount;
- Simplify depreciation calculators, reporting requirements, and accelerated options for most standard business items and amounts, all of which could be included as a line on Schedule C; and
- Provide additional safe harbors (similar to the home office deduction) providing standard deduction options based on industry and location.

These are the types of bold proposals that if included in the final legislation will be truly transformational in moving from a complex, unfair tax code, to one that encourages entrepreneurship and small business growth.

The NASE will however continue to push for the inclusion of the self-employed health insurance deduction, for our members this is the single most significant tax inequity they face when compared to other business entities.

CONCLUSION

It goes without saying that any significant reform to the tax code will be challenging, but we believe that putting forth a dynamic, common-sense proposal for bringing the tax code into the 21st Century can be accomplished if the proposal provides for a transformational change to all aspects of the tax code, individual and corporate.

As it stands now, our concern remains that the draft proposal looks only to modify or tweak the current tax code, but falls short of taking a path to overhauling the dysfunctional and byzantine tax code with a vision for complete reform of the individual and corporate tax structure.

We look forward to continuing to work with the Ways and Means Committees on achieving comprehensive tax reform in the 113th Congress.

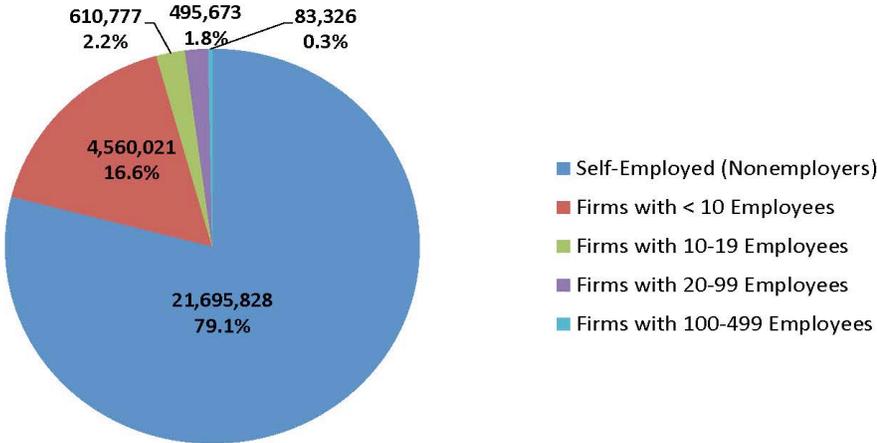
Respectfully,

A handwritten signature in cursive script that reads "K. Arslan".

Kristie Arslan, President & CEO
National Association for the Self-Employed

The Majority of U.S. Small Businesses are Self-Employed

FACT: 79.66 percent of small businesses in the United States are self-employed.



Source: U.S. Census Statistics of U.S. Businesses and Nonemployer Statistics, 2009

Prepared by the National Association for the Self-Employed (NASE)
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