

## Comments: Small Business/Pass Throughs Tax Reform Working Group

Small Business Majority welcomes the opportunity to comment on the small business tax reforms recently proposed by House Ways and Means Committee Chairman Dave Camp. Lawmakers on both sides of the aisle agree small business owners are the backbone of our economy, which is why it is so critical that positive steps are being proposed to help level the playing field for them. Entrepreneurs have long felt at a disadvantage when it comes to tax policies, and they support targeted policies that would benefit the vast majority of small firms, not those that only benefit a few. Following are our comments on some of the aspects of Chairman Camp's proposal that can help small businesses succeed.

### Small business expensing

This proposal goes a long way to address the issue of small business expensing, which entrepreneurs have shown significant concern over. Small Business Majority's scientific [polling](#) found that in 2012, more than eight in 10 entrepreneurs were anxious that the Section 179 deduction limit was set to drop to \$25,000 in 2013. While they can be thankful for the one-year extension that stopped that from happening, a temporary fix is not sufficient enough.

In an effort to eliminate uncertainty over this issue for good and give small businesses some cash flow flexibility, this proposal would permanently allow expensing of capital investments up to a quarter of a million dollars. That's 10 times what the limit is set to fall to in 2014, sans tax reform. Our research found the vast majority of small business owners would like to see the amount of expenses small business can deduct permanently raised to \$1 million. While this plan would not set the bar quite that high, it is a step in the right direction that small businesses support.

### Start-up costs

In addition to making changes to the Section 179 deduction as discussed above, Chairman Camp's plan also combines three existing provisions for start-up and organizational expenses into a single provision applicable to all businesses. In effect, it would double the dollar amount small firms can expense for start-up costs. For entrepreneurs just getting their businesses off the ground, that can make a huge difference. Small Business Majority supports this element of the tax proposal because we know from our extensive experience with small and micro-businesses that start-up costs can be a major barrier for entrepreneurs who are otherwise ready to grow and put more Americans back to work.

### Cash accounting

This proposal would also make commonsense changes to simplify the accounting process for small business owners. It would do so by creating a uniform rule under which all businesses with gross receipts of \$10 million or less would be able use the cash method of accounting. In coordinating this rule with the uniform capitalization rules, small businesses would be generally exempt from complex requirements for allocating inventory. This would save them a great deal of time and energy so they can focus more effort on growing their businesses. It's also important to note that sole proprietors would be able to exercise this cash method of accounting regardless of their level of gross receipts. With 21 million self-employed business owners across the United States, this rule could be a boon for the self-employed community.

## Business tax returns

Chairman Camp proposes to change due dates for business tax returns, in order to ease tax compliance for small companies. Small business owners often have insufficient time to prepare their tax returns, as the information needed for their tax forms is sometimes not yet available at the time they must file. Because of this, they frequently end up needing to request an extension. By adjusting the dates for when all the different types of businesses must file their taxes—such as partnerships, S corporations and C corporations—entrepreneurs will have more leeway to get organized during future tax seasons, and will still have the option for an extension if they need it.

## Partnerships and S corporations

Many business owners organize their companies as partnerships or S Corporations, and although these small businesses may look very similar on the outside, they have quite different sets of rules when it comes to federal taxes. To streamline some of those rules for current business owners and improve the tax system for future businesses as they organize, the proposal lays out two options to reform tax structures for partnerships and S corporations. Each of these options would do a number of things to improve the archaic nature of both tax structures as they currently function. Improvements would range from reducing double taxation of certain business income to cutting down on complications between federal and state tax returns for small businesses organized certain ways.

## Contact

Thank you for the opportunity to comment on House Ways and Means Committee Chairman Dave Camp's proposal for small business tax reform. If you have any questions please contact Rhett Buttle, Vice President, External Affairs, at [rbuttle@smallbusinessmajority.org](mailto:rbuttle@smallbusinessmajority.org) or (202) 828-8357.