Rebecca Boenigk
Ways & Means Testimony
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Good afternoon, Mr. Chairman and members of the Committee. My name is Rebecca Boenigk and I'm the Chairman of the Board and CEO of Neutral Posture, located in the great state of Texas. I am here today on behalf of myself, my family, and my company.

In 1989, my mother and I started a business out of our garage. We raised money to get started, worked hard, and developed an office chair based on my dad's expertise in ergonomics. Two years later, as our business was gaining steam, we discovered an unwelcome surprise. We owed an additional $86,000 in taxes on top of what we had already paid.

It wasn't because of ill intent or carelessness. It was because our complex, outdated tax code appears engineered to prevent small businesses from starting and growing here in the United States. In our case, the tax bill was a penalty for taking the necessary steps to make our company successful. Instead of counting inventory as a deductible investment in our business, it was instead considered a taxable asset. We assumed that because we had spent the money to buy the inventory that it was expensed. Lesson learned, at a cost of $86,000.

Fortunately, we were able to expand quickly enough to cover those unexpected costs. Other small start-ups are not that lucky. Almost 30 years later, we have 130 workers, including 90 at our headquarters in Bryan, Texas, and another 60 representatives across the U.S., Canada, and Puerto Rico.

A third of our revenue comes from the Neutral Posture Series, which is the high end, task intensive ergonomic seating line. The chairs have contoured seats, which help reduce seated pressure. We have an inflatable air lumbar in the back rest. Our chairs have been proven to reduce injuries and to reduce workers' compensation costs. I believe we manufacture the best office furniture on the market.

For a small manufacturer like us, it's clear our tax code has been broken for decades. We're due for an overhaul – one that closely resembles the plan laid out by this committee.

If Washington is serious about strengthening the American economy, it is time to enact a plan that will level the playing field for American businesses by encouraging investments and job creation. Piecemeal efforts won't get us where we need to go. We need comprehensive, permanent tax reform, and we need it now.

It begins with treating small businesses the same as we do large corporations. According to the SBA Office of Advocacy, of the 28.8 million small businesses in this country, nearly half of employer firms are organized as S Corporations and 11%

partnerships. For those firms without employees, 86.4% are sole proprietorships. All of these pass-through companies pay the individual tax rate.

As with many small businesses in the United States, Neutral Posture is organized as S corporation. The S corporation was designed by Congress to encourage the formation and growth of family businesses, and it has been succeeding at that task for more than half a century. That said, under today's tax code, this classification can make the process of filing your taxes hopelessly complicated. I'm a perfect example. My most recent personal tax return was 79 pages long.

That complexity is coupled with higher tax rates. The 35 percent rate the U.S. imposes on corporations is one of the highest in the world. But S corporation like mine pay an even higher rate – 39.6 percent or more. According to the Tax Foundation, on the federal level, pass-through businesses are subject to a top marginal tax rate of 44.6 percent. This means that, in most U.S. states, pass-through businesses can face marginal tax rates that exceed 47 percent.

A recent report by American University's Kogod Tax Policy Center, which used a national survey of women business owners conducted by Women Impacting Public Policy highlighted the fact that women-owned businesses miss out on more than $255 billion in tax incentives because of the industries they are in and their form of organization.

Cutting the corporate rate is badly needed, but rates need to come down for all businesses, regardless of how they are organized. The goal should be to allow entrepreneurs to keep more of their earnings so they have the ability to reinvest their profits, increase output, and hire more workers.

We shouldn't stop there. In the furniture industry, we face heavy competition from foreign importers. Companies that sell cheaper, less-reliable products from countries like China import those products with a significant tax advantage.

The U.S. tax code has essentially created a foreign import subsidy at the expense of American-based businesses and workers, paid for by taxpayers. Eliminating the foreign-goods subsidy and allowing American producers to write-off capital investments more quickly would help companies like mine

Another challenge small businesses face is the estate tax. If someone happens to claim a significant share of a family-owned small business as an asset, the heirs to that asset can potentially be penalized to the point that the company no longer survives.

In our case, my mother owns 44 percent of our business. If she were to pass away, we would be unable to pay the ensuing tax burden. That's right: if you clear all the other hurdles and manage to create a successful business, the estate tax jeopardizes passing it onto future generations. The estate tax amounts to double jeopardy on income and assets that have already been taxed. It should be eliminated permanently.

In conclusion, I am recommending equal tax treatment for businesses, no matter how they are formed, elimination of the estate tax and simplification of the tax code for everyone and these changes need to permanent. Small businesses cannot plan for the future with a changing tax code. Mr. Chairman, thank you again for bringing this issue to light. We look forward to working with you. I would be happy to answer any questions.