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HEARING: THE NEED TO MAKE PERMANENT THE TRUMP TAX CUTS FOR WORKING FAMILES

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Chairman Smith, Ranking Member Neal, and distinguished members of the committee, thank you for the opportunity to provide testimony on the importance of permanently extending provisions of the Tax Cuts and Jobs Act (TCJA) benefiting working families and privately-owned businesses. As a Certified Public Accountant with over 35 years of experience working with individuals, small businesses, and multigenerational family enterprises, I have seen firsthand how the provisions of the TCJA have provided critical support to the businesses and families that form the backbone of our economy.

The TCJA provided several key provisions that have benefited all of my business and individual clients, including the 20% deduction for qualified business income under Section 199A, full bonus depreciation, lower marginal tax rates across the board, doubling the standard deduction, the expanded child tax credit, and the increased estate tax exemption. These provisions have not only encouraged growth and investment but also provided a lifeline for small businesses and working families navigating economic uncertainties.

As Congress currently debates how to move forward legislatively this year, making TCJA provisions permanent should be priority number one. Business owners, family enterprises, working families and their advisors, are desperately seeking certainty and predictability related to tax policies right now. Frequent or last-minute changes to the tax code create tremendous uncertainty, making it difficult for taxpayers to plan for the future. Without clarity, businesses and families are likely to delay or forgo investments like hiring more workers, increasing salaries, upgrading business equipment, purchasing a first home, or opening a new college savings account for their children which could stall economic growth and depress job creation. Congress needs to act quickly and swiftly and should avoid at all costs waiting until the fourth quarter to address these important tax provisions when it's simply too late for businesses and families to react.

Section 199A: The 20% Deduction for Qualified Business Income

The 199A deduction allows for a 20% deduction of Qualified Business Income for businesses that are considered pass-through entities, meaning the business income is passed through to the personal tax return of the owner(s) and they pay personal income tax at their marginal tax rates on such income. The 199A deduction was established in conjunction with the lower corporate rate that was also created under TCJA, however the lower corporate rate under TCJA was made permanent, while 199A and a number of other provisions affecting pass-through businesses were not.

It should also be noted that not all business owners qualify for the 199A deduction. A number of guardrails and limitations apply which ensure business owners are investing in employees and capital expenditures. Plus, there are additional limitations for high-income taxpayers, so it is not something that only benefits the rich, in fact it is significantly harder for them to qualify.

199A has been critical for my clients organized as sole-proprietors, partnerships, LLC's and S-corporations, which represent nearly 99% of my business clients. As a group, pass-through businesses represent the vast majority of businesses in Michigan and nationwide. They also employ most of the country's workers. In short, 199A plays an instrumental role in providing relief to the vast majority of main street businesses across the USA.

Section 199A was designed to help private businesses in three important aspects:

- Establish rough parity between the pass-through tax rates and the new, lower corporate rate;
- Generate economic growth by allowing these businesses to retain and reinvest more of their earnings; and
- Avoid broad tax hikes by offsetting the many revenue raisers included in the TCJA.

These last two points are worth highlighting. Pass-through businesses are the foundation of the economy in my community and most others across the country. The 199A deduction allows businesses to reinvest more of their earnings back into those communities. It is used to create jobs, pay for health insurance, upgrade equipment and computer systems, buy new facilities, and expand product lines.

I have seen first-hand the benefits of 199A from many of my clients. In particular, 199A was extremely beneficial in 2021-2022 when inflation was skyrocketing and good employees were hard to find (and keep). 199A allowed my clients to stay competitive with larger corporations on wages and hire more employees at a higher cost than they had seen in decades. They were able to do this knowing it would contribute to their 199A qualifications and they would receive a direct benefit for their investment. In addition, during the post-Covid economic rebound, many of my clients significantly increased their investments in equipment, computer systems, and infrastructure to make use of 199A and the last years of full-bonus depreciation.

If the 199A deduction were allowed to expire this year, my clients would face higher tax burdens, leaving them with fewer resources to innovate, compete, and grow. This tax hike is, relative to the pre-TCJA rules, a real tax hike. That is because the TCJA included revenue raisers like the SALT deduction cap, the cap on interest expense deductions, net operating loss limitations, research and experimental (R&E) amortization, and excess loss limitations. All of these affect pass-through businesses and many of them will remain in the Tax Code next year and beyond. If the 199A deduction expires, the taxes on my clients will go up sharply, while C-corporation owners and publicly-traded companies will continue to operate at the lower 21% TCJA corporate rate. This simply is just not fair. This will also cause many businesses to reorganize as C-corporations which will create unnecessary administrative and operational burdens and hurt our main street businesses in the long-run.

Family businesses organize as pass-throughs because it is a better fit and allows them more flexibility. The C-corporation rules may work fine for large or public companies, but they handicap most family businesses. An annual double tax applies to businesses who pay dividends and whose owners pay taxes.

That's the family business. Converting to C-corporation simply won't work – absent the 199A deduction, the family business ends up paying more either way.

It should be noted that raising taxes on any US business in this current economic environment, including family businesses organized as C-corporations, would hurt job growth and the economy. Instead, Congress should focus on providing parity with respect to the tax treatment of C-Corporations and pass-throughs, beginning with making the 199A deduction and other individual provisions permanent.

Bottom line: Permanently extending the 199A deduction is critical to maintaining the vitality of main street businesses, the workers they employ, and the communities they serve.

Full Bonus Depreciation

The restoration of full bonus depreciation under the TCJA has been a game-changer for my business clients of all sizes. This provision allows businesses to immediately deduct the full cost of qualifying capital investments, such as machinery, equipment, computers, and vehicles, instead of spreading the deduction over multiple years.

Immediate deductions have reduced tax liabilities and freed up capital for investments in state-of-the-art equipment and computer systems, resulting in increased efficiency, production capacity, revenue growth, and job creation. Without this provision, businesses would face less incentive to invest in the equipment needed to remain competitive. Under TCJA, allowable bonus depreciation was 100% through 2022 and phased out from 80% in 2023 to 0% in 2027. Phasing out full bonus depreciation as currently scheduled would significantly hurt businesses by increasing upfront costs and discouraging timely investments. Many small businesses depend on the financial flexibility this provision provides to upgrade essential equipment and infrastructure critical for growth and survival.

Restoring full bonus depreciation permanently ensures that businesses can continue to make critical investments that drive growth, efficiency, and innovation. Phasing out this provision would jeopardize the ability of businesses to remain agile in a rapidly evolving economic landscape.

Lower Marginal Tax Rates Across the Board

Lower marginal tax rates across the board are beneficial to all taxpayers. Not only do they help bolster the financial health of individual businesses, but they also provide relief for working families. When marginal tax rates are higher, small businesses—many of which operate on slim profit margins—face greater financial strain, often at the expense of growth opportunities.

In addition, lower marginal tax rates incentivize entrepreneurial risk-taking. Small business owners often encounter unpredictable market conditions and must make difficult decisions about whether to expand, innovate, or cut back. By reducing the tax burden, lower marginal rates improve the financial feasibility of taking calculated risks, such as launching new products or entering competitive markets. Higher marginal tax rates discourage risk-taking and stifle the competitive spirit that drives small business success. Maintaining the lower rates enacted by TCJA is essential to ensuring a thriving small business sector that continues to fuel economic growth and job creation. In combination with the 199A deduction, lower marginal rates have helped support small business growth and have increased take home pay for workers. All taxpayers benefit from lower marginal rates and when working families have more tax home pay, they are able to invest more in their families and communities. Ask any working household, and they will tell you that every penny of savings matters when raising a family. I would like to draw special attention to the urgency of addressing this TCJA provision because it will impact the first paycheck workers receive in 2026 when their tax withholdings are adjusted. If the marginal rates are not permanently extended, every American worker will go home with a smaller paycheck starting in January 2026.

Lower marginal rates are beneficial to all taxpayers including small business owners and working families. Current rates should be permanently extended.

Simplification of Personal Taxes: Doubling the Standard Deduction & Increased AMT Exemptions

Doubling the standard deduction and increased AMT exemptions through TCJA made filing personal tax returns significantly easier for nearly all of my clients. Because of the SALT deduction limitations in conjunction with the increased AMT exemptions, even most of my high net worth and high-income taxpayers now take the standard deduction and no longer itemize.

Doubling the Standard Deduction: The doubling of the standard deduction has simplified tax filing for millions of Americans and provided substantial tax savings for middle-class families. This provision has been especially beneficial for my clients, many of whom are small business owners juggling the demands of running their operations and managing household finances. Not having to track itemized deduction expenses has significantly simplified their tax filings and personal record keeping needs.

The simplicity of the increased standard deduction has not only saved middle class families tax dollars, it has also saved countless individuals and small businesses valuable time that would otherwise be spent digging through a box full of receipts to itemize their deductions. My clients have expressed relief at no longer needing to track and compile extensive records for itemized deductions, enabling them to focus on running their operations and households instead of navigating complex tax filings.

Increased AMT Exemptions: The alternative minimum tax (AMT) is a complex tax computation that, before TCJA, ran parallel to both individual and corporate income taxes, with the taxpayer paying the higher of the two calculations. The AMT is particularly burdensome for individuals with small businesses, because they often do not know whether they will be affected until they file their taxes, which is far too late, forcing them to maintain a reserve that cannot be used to invest in their businesses in real time. TCJA permanently repealed the corporate AMT and significantly increased the AMT income exemption amount for individuals, but the individual provisions were not made permanent. In 2017, before TCJA, over 5 million taxpayers were subject to AMT compared to just 200,000 in 2018 after TCJA was enacted. The Congressional Budget Office (CBO) projects that if TCJA expires after 2025, 7.2 million taxpayers will be subject to the AMT starting in 2026, representing about 4% of all taxpayers. If the individual provisions of TCJA are allowed to expire, it will create a significant burden for American taxpayers at all levels, and potentially more so on those with high SALT (State and Local Tax) deductions, as these are a major component of the AMT calculation.

So, for those pushing to eliminate the SALT limitation provisions of TCJA, I warn you that you cannot consider changes to SALT without a keen eye on the AMT provisions that could completely negate such changes in SALT deductions.

Permanently extending the increased standard deduction and AMT exemptions will continue to provide tax savings to hardworking Americans and reduce the complexity of the tax system for countless households and tax professionals.

Expanded Child Tax Credit

The expanded child tax credit (CTC) has been a lifeline for working families, including many of my personal friends and family. TCJA doubled the pre-2017 CTC from $1,000 to $2,000 per child but those changes expire at the end of this year. The expanded child tax credit provides much-needed relief, helping these families cover essential costs such as childcare, education, and healthcare.

This provision has also had a direct impact on my own family. My brother, who works as a public-school teacher, relies on the child tax credit to help provide for his seven children between the ages of 4 and 19. His modest salary is stretched thin by the demands of supporting a large family, and the tax credit has been essential in covering necessities like general household expenses, childcare, school supplies, extracurricular activities, and healthcare expenses. For families like his, the expanded child tax credit is not just helpful—it is indispensable.

By permanently extending the child tax credit, Congress can continue to support hardworking families and ensure that the benefits of economic growth reach all Americans.

Increased Estate Tax Exemption

The estate tax presents a constant source of worry and a financial burden for family businesses that I work with. The time, energy, and financial strain is imposed both annually in estate planning costs and then again upon the death of a business owner.

Business owners pay taxes on the growth and success of their business their entire lives and sacrifice a great deal to pass a business to the next generation. Any small business owner will tell you that passing on a family business is difficult enough without having to worry about a 40% tax at death. Illiquid businesses that operate on small margins like manufacturers, distributors, and family farmers may appear wealthy on paper but almost always lack the cash or liquidity to pay 40% of their business value to the IRS. Successful businesses invest back into their business using their profits to hire more employees and invest in equipment and infrastructure, making these businesses highly illiquid. Many family businesses and farms cannot cover their estate tax liability within the time period they are allowed, and they are often forced to downsize their operations, sell off parts of the business, fire workers, or close their doors for good.

One figure that does not show up in the IRS's statistics is the number of family businesses forced into fire sale situations because of the estate tax. In the accounting industry, my colleagues and I have seen countless family businesses essentially gobbled up by private equity or larger multinational corporations because the family recognizes they cannot afford to pay the tax at death. Ironically, in this way, the estate tax is actually leading to a concentration of wealth, by taking businesses out of the hands of local trusted members of communities and transferring those businesses into the hands of larger corporations. When this happens, business decisions as well as decisions about community investment are relegated to the c-suites of large multinational corporations. The private equity market is also having a big impact in today's business transition environment.

In recent years, I have observed a number of baby boomer clients reaching the age where they need to start planning for their looming estate tax bill or develop an exit strategy for their business. The private equity market is currently relentless in its quest for growth, so many family businesses are falling victim to their big dollar price tags and attractive promises. Several of my clients have weighed the cost/benefit of keeping their business in the family or selling out to private equity or multinational corporations, and unfortunately a majority have opted for the latter specifically to avoid a future estate tax burden on their heirs. In these instances, I have seen jobs lost and communities severely impacted. With so many baby boomers reaching this time in their lives, this problem will inevitably continue, further driving consolidation. As a result, in the long run, the estate tax revenue to the government will dwindle away.

Additionally, according to the Tax Foundation, compliance costs related to the estate tax amount to over $18 billion annually—a figure that exceeds the annual estate tax revenue collected by the federal government. That's right, more money is spent annually complying with the tax than the government collects in estate tax revenue. This fact highlights the gross inefficiency of the estate tax as a revenue raising tool and underscores the burden it places on businesses and families.

While the increased exemption under TCJA has certainly been helpful to my clients and family businesses across the country, the estate tax continues to threaten successful private businesses. If the estate tax is not addressed this year, the current exemption will be cut in half, doubling or tripling the number of families hit by the death tax. Successful family businesses that compete with publicly traded multinationals are put at a significant competitive disadvantage because of the estate tax. With respect to ensuring parity in the tax code, there is no corporate equivalent to the estate tax, which forces family businesses to pay a 40% tax at the turn of every generation, while publicly traded corporations effectively self-perpetuate. Essentially, a family must buy their business back from the government at a 40% cost, in addition to the taxes they paid on the growth and success of the business all along. This double tax is crushing to any family business, no matter the size.

I am an advocate for permanently eliminating the estate tax and all the obstacles it creates for family businesses. Taxing any grieving family is wrong, especially when hardworking employees could lose their jobs and communities could suffer as a result. Families should not be penalized for building businesses that span generations and providing jobs in their communities, especially when they have been paying taxes on their success along the way.

If the estate tax is not addressed this year, the current exemption will be cut in half which will double or triple the number of families forced to pay the tax. Congressman Feenstra and Senate Majority Leader Thune deserve credit for continuing to work towards repeal of this unfair and economically destructive tax. The Family Business Coalition, which I sit on the advisory board of, recently released a coalition letter with over 160 small business associations signed on in support of Representative Feenstra and Senator Thune's Death Tax Repeal Act. The estate tax is not just a tax on success—it is a tax on opportunity, continuity, and local economic stability. The expiration of the current estate tax exemption needs to be addressed immediately. Simply put, death should not be a taxable event.

The Value of Small Businesses to Their Communities

Small businesses are the heartbeat of their communities, creating jobs, fostering local economic growth, and contributing to the unique character of the neighborhoods they serve. Family and privately-owned and operated businesses often prioritize long-term relationships with their customers, employees, and suppliers, which helps build a sense of trust and belonging. These businesses sponsor local events, contribute to charities, and act as community hubs where neighbors come together. Unlike most multinational corporations, small businesses are deeply rooted in the communities they serve, and their success is intertwined with the well-being of their local areas.

When small and family-owned businesses are bought out by larger multinational corporations, communities lose more than just a storefront. Decision-making shifts from local owners who understand and care about their neighbors to distant corporate C-suite executives, whose priorities often center on maximizing shareholder profits at the expense of local jobs. This disconnect can result in layoffs, reduced local investment, and diminished community involvement. Losing these small businesses erodes the fabric of local economies and culture, leaving behind impersonal enterprises that fail to address the unique needs of the communities they occupy. Protecting small businesses is not just an economic imperative but a cultural one, essential to preserving the identity and vibrancy of communities across America.

Conclusion

The Tax Cuts and Jobs Act has been a lifeline for small businesses, multigenerational family enterprises, and working families. Provisions like the 199A deduction, full bonus depreciation, lower marginal tax rates, doubling the standard deduction, increasing the AMT exemption, the expanded the child tax credit, the increased estate tax exemption have enabled hard-working Americans to thrive, invest, and contribute to their communities.

As someone who works closely with these individuals and businesses, I have seen the tangible benefits of the TCJA and understand the risks of letting these provisions expire. I urge Congress to permanently extend these provisions quickly and swiftly as well as consider further reforms, such as the repeal of the estate tax, to support our main street businesses that are the backbone of our economy. Small businesses and family enterprises deserve a tax code that is fair and works for them, not against them.

Thank you for the opportunity to share my perspective. I look forward to the discussion here today.