



**Presentation:
Tax Reform – The View of Small Businesses**

Submitted by Chairman Sam Graves (R-MO)
Committee on Small Business

To the Ways and Means Committee Working Group on
Small Business and Pass-Throughs

The Honorable Vern Buchanan (R-FL), Chairman
The Honorable Allyson Schwartz (D-PA), Vice Chairman

April 10, 2013

2361 Rayburn House Office Building, Washington, D.C. 20515 202.225.5821



Overview

- Since 2011, the Small Business Committee has held twelve hearings on the effect of taxes on small businesses, on topics such as tax complexity, tax reform, estate taxes, pro-growth tax policy and the “fiscal cliff.”
- The Small Business Committee has been listening to the small businesses on Main Street. The Committee has heard from them every week about the obstacles to their growth, including tax burdens. From witness testimony and our Committee’s interactive web portal called “Open Mic,” we have gleaned feedback and recommendations directly from small business owners themselves.
- As you will see, small business owners support simplifying the tax code and making it more fair. They favor comprehensive tax reform that includes pass-through entities, since about 75% of them are taxed at the individual rate. They are frustrated that they are taxed on money they don’t take out of the company, frustrated that taxes are too high for them to expand, and frustrated with the amount of time that it takes comply with the tax code. These are resources that would be better spent growing their businesses and creating jobs.
- The Committee on Small Business seeks input from small firms in a variety of ways. In addition to Committee hearings held in Washington, D.C. and field hearings across the country, the Committee hosts a web platform called “Open Mic” where small business men and women comment on policy that affects their businesses.

I. Tax-Related Hearings Held by the Small Business Committee From 2011-2013

February 9, 2011 – Full Committee -- “Buried in Paperwork: A 1099 Update”

Witnesses:

First Panel

- The Honorable Dan Lungren, U.S. House of Representatives (R-CA)

Second Panel

- R. Jerol Kivett, President, Kivett’s Inc., Clinton, NC (on behalf of the National Federation of Independent Business)
- John “Mark” Eagleton, Managing Member, Eagleton Ventures, LLC, Golden, CO (on behalf of the National Restaurant Association)
- Seth Shipley, Owner, Shipley’s Fine Jewelry, Hampstead, MD (on behalf of the National Retail Federation)
- Mike Kegley, President, B.O.L.D. Homes, Inc., Union, KY (on behalf of the National Association of Home Builders)

February 16, 2011 – Full Committee – “Putting Americans Back to Work: The State of the Small Business Economy”

Witnesses:

- Terry Frank, Owner, Nature’s Marketplace, Oak Ridge, TN
- Dixie Kolditz, Owner, Open-Box Creations, Cathlamet, WA
- William Phelan, President and Co-Founder, PayNet, Inc., Skokie, IL
- Bill Feinberg, President, Allied Kitchen and Bath, Ft. Lauderdale, FL (on behalf of the U.S. Chamber of Commerce)

April 13, 2011 – Full Committee -- “How Tax Complexity Hinders Small Business Growth”

Witnesses:

- Nina E. Olson, National Taxpayer Advocate, Washington, DC
- Steven J. Strobel, Executive Vice President and Chief Financial Officer, BlueStar Energy Solutions, Chicago, IL (on behalf of the National Small Business Association)
- Robert Kulp, Founder, Co-Owner and Business Development Director, Kulp’s of Stratford, Stratford, WI (on behalf of the National Roofing Contractors Association)
- Monty W. Walker, CPA, Walker Business Services, Wichita Falls, TX

May 26, 2011 – Subcommittee on Contracting and Workforce -- “Defer No More: The Need to Repeal the 3% Withholding Provision”

Witnesses:

First Panel

- The Honorable Wally Herger, U.S. House of Representatives (R-CA)

Second Panel

- Brian George, Deputy Director, Office of Cost, Pricing & Finance, U.S. Department of Defense, Washington, DC
- Curtis M. Loftis, Jr., Treasurer, State of South Carolina, Columbia, SC

Third Panel

- Mike Murphy, President, Turner Murphy Construction, Rock Hill, SC (on behalf of Associated General Contractors)
- Ian Frost, Principal, EEE Consulting, Inc., Mechanicsville, VA (on behalf of the American Council of Engineering Companies)
- James M. Gaffney, President, Goshen Mechanical, Inc., Malvern, PA (on behalf of the Quality Construction Alliance)
- Kara M. Sacilotto, Partner, Wiley Rein LLP, Washington, DC

November 3, 2011 – Subcommittee on Economic Growth, Tax and Capital Access – “Pro-Growth Tax Policy: Why Small Businesses Need Individual Reform”

Witnesses:

- Robert J. Carroll, Principal, Quantitative Economics and Statistics Group, Ernst & Young LLP, Washington, DC
- Gary Marowske, President, Flame Furnace, Warren, MI (on behalf of the Air Conditioning Contractors of America)
- William R. Smith, Chief Executive Officer, Termax Corporation, Lake Zurich, IL (on behalf of the Precision Metalforming Association)
- Stephen Capp, President and CEO, Laserage Technology Corporation, Waukegan, IL (on behalf of the National Federation of Independent Business)

December 12, 2011 – Subcommittee on Economic Growth, Tax and Capital Access – “Field Hearing in Illinois: Is Uncertainty Contributing to the Jobs Crisis: The Views of Local Illinois Small Businesses”

Witnesses:

- Eric Treiber, President and COO, Chicago White Metal Casting, Inc., Bensenville, IL
- Perry Moy, Owner, Plum Garden, McHenry, IL (on behalf of the National Restaurant Association)
- Craig Larsen, Founder/President, AHC Advisors, Inc., St. Charles, IL

February 1, 2012 – Full Committee – “The Path to Job Creation: The State of American Small Business”

Witnesses:

- Dennis J. Jacobe, Ph.D., Chief Economist, Gallup, Washington, DC
- Peter Ferrara, Senior Fellow, Entitlement and Budget Policy, The Heartland Institute, Chicago, IL
- Martin Neil Baily, Ph.D., Senior Fellow, Economic Studies, Bernard L. Schwartz Chair in Economic Policy Development, The Brookings Institution, Washington, DC
- Michael J. Fredrich, President, Manitowoc Custom Molding, Manitowoc, WI (on behalf of the Small Business and Entrepreneurship Council)

April 11, 2012 – Full Committee – “The Tax Outlook for Small Businesses: What’s on the Horizon?”

Witnesses:

- Aparna Mathur, Ph.D., Resident Scholar, American Enterprise Institute, Washington, DC
Leonard Steinberg, Principal, Steinberg Enterprises, LLC, West Windsor, NJ (on behalf of the Small Business and Entrepreneurship Council)
- Margot Dorfman, CEO, U.S. Women’s Chamber of Commerce, Washington, DC
Martin J. Mitchell, Vice CEO, Mitchell & Best Homebuilders, LLC, Rockville, MD (on behalf of the National Association of Home Builders)

May 31, 2012 – Subcommittee on Economic Growth, Tax and Capital Access – “Planning for the Death Tax: Can Small Businesses Survive?”

Witnesses:

- Neil D. Katz, Managing Partner, Katz, Bernstein & Katz, LLP, Syosset, NY
- Karen Madonia, Chief Financial Officer, Illco, Inc., Aurora, IL (on behalf of the Heating, Air-Conditioning and Refrigeration Distributors International)
- Michael G. Flesher, Owner, Taylor Rental Center, Vestal, NY (on behalf of the American Rental Association)
- Thala Taperman Rolnick, Owner, Thala T. Rolnick, CPA, PLLC, Phoenix, AZ

September 13, 2012 – Subcommittee on Economic Growth, Tax and Capital Access – “Adding to Uncertainty: Small Businesses’ Perspectives on the Tax Cliff”

Witnesses:

- Theresa Kern, President, MA Steel Erectors, Inc., Palos Heights, IL (on behalf of Women Construction Owners and Executives, USA)
- Doug Harmon, CEO, Twin City Die Castings Co., Minneapolis, MN (on behalf of the North American Die Casting Association)
- Scott Hodge, President, Tax Foundation, Washington, DC
- Jeffrey A. Porter, CPA, MST, Porter & Associates, CPAs, Huntington, WV (on behalf of the American Institute of Certified Public Accountants)

February 13, 2013 – Full Committee – “State of the Small Business Economy”

Witnesses:

- Randall Kroszner, Ph.D., Norman R. Bobins Professor of Economics, University of Chicago Booth School of Business, Chicago, IL
- Maria C. Coyne, Executive Vice President, Consumer/Small Business, Key Bank, Cleveland, OH (on behalf of the Financial Services Roundtable and the Consumer Bankers Association)
- Sean Falk, Owner/President, WolFTeaM LLC/Nachogang LLC, Cedar Park, TX (on behalf of the International Franchise Association)
- Margot Dorfman, CEO, U.S. Women’s Chamber of Commerce, Washington, DC

April 10, 2013 – Full Committee “Small Business Tax Reform: Growth Through Simplicity”

Witnesses:

First Panel

- The Honorable Dave Camp (R-MI)

Second Panel

- Sam Griffith, President and CEO, National Jet Company, Lavale, MD (on behalf of the National Tooling and Machining Association)
- Steve Bearden, President and CEO, Linemark Printing, Upper Marlboro, MD
- Tim Walters, President and CEO, Hoffman Equipment, Piscataway, NJ
- Roger Harris, President and COO, Padgett Business Services, Dallas, TX

II. Testimony from Small Business Owners Supporting Principles in Chairman Camp's Discussion Draft

A. Permanent Expensing of Investments in Equipment and Property

“I have finally located a reinforcing steel fabrication plant that I would like to buy to expand my business...I would be foolish to proceed because there is no certainty about tax policy in just 4 short months. Something as simple as the current Section 179 tax law which would allow me to write off a major portion of this investment instead of depreciating it over dozens of years makes the project financially feasible.” *Theresa Kern, President, MA Steel Erectors, Inc., Palos Heights, IL, September 13, 2012 (on behalf of Women Construction Owners and Executives, USA)*

“In particular, we urge lawmakers to renew tax extenders widely used by the manufacturing sector, such as the R&D credit, bonus depreciation and Section 179 expensing....To maintain this competitive advantage, tax provisions must be enacted that will stimulate investment and recovery....” *Doug Harmon, CEO, Twin City Die Castings Co., Minneapolis, MN, September 13, 2012 (on behalf of the North American Die Casting Association)*

“...[D]epreciation is an area of the tax law where uncertainty has a significant impact on business decisions. The ability to entirely write off a capital expenditure can influence small business owners' decisions. Likewise, the difference in 50% bonus depreciation, 100% bonus depreciation and no bonus depreciation is substantial for small businesses and undoubtedly impacts their decisions. The difference in taxes may determine whether a business owner purchases an asset this year, next year or perhaps not at all.” *Jeffrey A. Porter, CPA, MST, Porter & Associates, CPAs, Huntington, WV, September 13, 2012 (on behalf of the American Institute of Certified Public Accountants)*

“Losing the ability to take a Section 179 deduction reduces cash flow by increasing tax and this in turn impacts other expansion decisions such as hiring people.” *Monty W. Walker, CPA, Walker Business Advisory Services, Wichita Falls, TX, April 13, 2011*

“For tax years 2010 and 2011, Congress passed the law that allowed the expansion of the Section 179 expense limitation to \$500,000... [W]ithout further “enabling legislation,” the 2003 “Bush Tax Cuts” will expire and go back to pre-2003 rates and the §179 deduction limit will fall back to \$25,000. Such uncertainty makes it more difficult for small business owners to properly plan for capital investments and diminishes the impact of the incentive.” *Leonard Steinberg, Principal, Steinberg Enterprises, LLC, West Windsor, NJ, April 18, 2012 (testifying on behalf of the Small Business and Entrepreneurship Council)*

“...Bonus depreciation and Section 179 expensing provide tax relief for companies that want to buy capital assets, such as plant machinery and equipment. These historic capital investment incentives have had a positive impact and incentivized business purchasing and job creation.” *Eric Triedel, President and CEO, Chicago White Metal Casting, Inc., Bensenville, IL, December 12, 2011*

B. Simplify and Expand Use of Cash Accounting

“NFDA...is encouraged by the draft proposal [and]...is particularly supportive of the sections dealing with Section 179 expensing, cash accounting and updating the partnership and Subchapter S rules. We also like moving the filing dates for business tax returns.” *John H. Fitch, Jr., Senior Vice President, Advocacy, National Funeral Directors Association, Washington, DC, April 10, 2013*

“The Simplified Cash Method would have the advantage of making the business checking account “the books” for the small business.... The Internal Revenue Service would have the same information to decide on which businesses to audit or contact. The tax return would provide the flexibility for the taxpayer to explain differences between what is reported to the IRS and what is on the tax return. By comparison, today’s rules require many small businesses to separately track and compute depreciation, amortization, inventory capital expenditures and other items, strictly for tax purposes....” *Roger Harris, President and COO, Padgett Business Services, Athens, GA, April 10, 2013*

C. Establishment of Unified Deduction for Start-up and Organizational Expenses

“Increases in the cost of capital resulting from higher individual income tax rates was found to reduce the investment spending of entrepreneurs and the probability that they invested at all.” *Robert J. Carroll, Principal, Qualitative Economics and Statistics Group, Ernst and Young LLP, Washington, DC, November 3, 2011*

III. Notable Hearing Testimony from Small Business Owners on Tax Reform

A. The Need for Simplification: Tax Complexity Hinders Economic Growth

“Understanding tax matters is confusing and tax compliance comes at a cost. This cost results in lost resources that could have been used for business operations and business development.” [Some small business owners decide to] “just stay small and not hire people as opposed to expanding and becoming exposed to regulatory compliance brought on by hiring people.” *Monty Walker, CPA, Walker Business Advisory Services, Wichita Falls, TX; April 13, 2011*

[I encourage Congress to] “Implement real tax reform: simplify the tax code, broaden the base, lower all individual and corporate tax rates, and make the corporate tax code more competitive for U.S. businesses. These reforms will create a surge in economic growth.” “Efforts to reduce the regulatory and administrative burden on small businesses must focus on overall simplification, eliminating inequities within the tax code and enhancing taxpayer education and outreach.” *Steven Strobel, Executive Vice President and Chief Financial Officer, BlueStar Energy Solutions, Chicago, IL; April 13, 2011 (on behalf of the National Small Business Association)*

“As the national unemployment situation continues to slowly improve, unemployment in the construction industry remains at an alarming 20 percent, according to the Bureau of Labor Statistics. There appears to be little relief in sight for our industry during these difficult economic times. Clearly, the time is right to take steps to improve this situation, and reducing complexity in the tax code is a good place to start.” *Robert Kulp, Founder, Co-Owner and Business Development Director, Kulp's of Stratford, Stratford, WI; April 13, 2011 (on behalf of the National Roofing Contractors Association)*

B. Higher Taxes Mean Less Money Available For Business Growth, Expansion and Job Creation

“Whenever money is taken out of the economy from the small business community, the consequences have multiple effects. Business owners cannot afford to give their employees timely raises, profit sharing and other fringe benefits are cut or withdrawn, business owners defer capital expenditures affecting their suppliers and the supplier workers, worker disposable income is reduced affecting vacations, restaurants, entertainment, and other activities. The workers who work in these industries also suffer due to the cutback. The Las Vegas economy is a prime example.” *Leonard Steinberg, Principal, Steinberg Enterprises LLC, West Windsor, NJ; April 18, 2012 (on behalf of the Small Business and Entrepreneurship Council)*

“Over the last few years, Laserage’s operating costs have steadily increased. Illinois taxes were increased massively this past year. Last year, health insurance costs rose 21 percent. Materials and energy costs continue to increase. If federal income taxes increase, as well, it could well be the “straw that breaks the camel’s back” and forces us to manufacture in an offshore business.”

Stephen Capp, President, Laserage Technology Corporation, Waukegan, IL; November 3, 2011 (on behalf of the National Federation of Independent Business)

“Due to our current U.S. tax code, we are taxed on income we do not take out of the company but leave in the business to reinvest. This means we have fewer resources to put towards hiring, training, and buying new machines.... Tax reform is possibly the single most important barrier to improving manufacturing growth in the U.S. but it is about so much more than just statutory rates.... On behalf of small and medium sized businesses manufacturing in America, we ask that Washington move on comprehensive tax reform to help us all grow our businesses and create jobs in the U.S.” *William R. Smith, President and Chief Executive Officer, Termax Corporation, Lake Zurich, IL; November 3, 2011 (on behalf of the Precision Metalforming Association)*

“As a small business, we may report thousands of dollars or more in profit, but few manufacturers take those profits home – they are overwhelmingly reinvested back in the business, our employees, facilities and equipment. This means that the less resources we have, due to paying more in taxes, the less resources we have for improving our employees’ wages and benefits and buying new equipment.”

Doug Harmon, CEO, Twin City Die Castings Co., Inc., Minneapolis, MN; September 13, 2012 (on behalf of the North American Die Casting Association)

C. The Need for Code Certainty and Predictability

The uncertainty of the tax law unnecessarily impedes long-term tax and cash-flow planning for businesses, and prevents owners from making informed decisions.” *Jeffrey A. Porter, CPA, MST, Porter & Associates, CPAs, Huntington, WV; September 13, 2012 (on behalf of the American Institute of Certified Public Accountants)*

“...[I]t is nearly impossible to estimate the true cost of a purchase of new equipment when income tax rates are uncertain. Although income taxes are not the only factor in making business decisions, prudent business owners want to understand the tax consequences of a transaction. Multi-year planning and the ability to predict (or at least estimate) business profits and taxes are critical in operating a business. It is also essential to know future income tax rates in structuring major business transactions such as in the sale of a business or its assets.” *Jeffrey A. Porter, CPA, Porter & Associates, CPAs, Huntington, WV; September 13, 2012 (on behalf of the American Institute of Certified Public Accountants)*

“[G]ive us a tax code that’s predictable and fair. In my restaurant, we just spent about \$8,000 to put in a small bar and a new section of our floor. When your profit margin has shrunk to under 3 percent, saving \$8,000 for a small renovation is not easy. It took us about two years.... This makes it hard for businesses to plan capital investments.” *Perry Moy, Plum Garden Restaurant, McHenry, IL; September 13, 2012 (on behalf of the National Restaurant Association)*

“The uncertainty resulting from such temporary tax policy makes it difficult for die casters, which rely on three- and five-year business strategies, to plan effectively for the future and remain competitive in an increasingly global economy.” *Doug Harmon, CEO, Twin City Die Castings, Minneapolis, MN; September 13, 2012 (on behalf of the North American Die Casting Association)*

“We simply cannot plan and make business decisions with constantly changing tax laws “hanging over our heads.” Business owners need certainty and clarity about the tax rules and to be freed of fear of constant and/or harmful changes.” *Stephen Capp, President and CEO, Laserage Technology Corporation, Waukegan, IL; November 3, 2011 (on behalf of the National Federation of Independent Business)*

“Since the tax system directly impacts so many decisions, small business owners will standby on making business development and new hire decisions when they have a lack of confidence in what will occur due to unknowns in the tax system. This, in part, has added to and is currently adding to the soft business expansion and a lack of new hiring which is desperately needed as a part of the United States’ current economic recovery.” *Monty W. Walker, CPA, Walker Business Advisory Services in Wichita Falls, TX; April 13, 2011*

“It has been made clear that Washington recognizes the vital role of small firms in the economy and the plight of America’s job creators. But what we need to see from our lawmakers is an effort to fully consider small businesses during rule-making, facilitate access to capital and provide certainty about taxes- this will allow us to do what we do best- fuel the national economy and hire more of our neighbors.” *Elise Mitchell, President and CEO, Mitchell Communications Group, Inc., Fayetteville, AR; July 25, 2012 (on behalf of Women Impacting Public Policy)*

D. The Estate Tax Hinders Family Businesses

“I personally find it fundamentally wrong to place a tax on death. If a person is able to accumulate wealth through hard work, and if that person pays his fair share of taxes on his income as it is earned, I do not understand how the government can justify taking a significant portion of what he has left simply because he opted to save and re-invest rather than consume.... In most cases, we’re not talking about passing on bank accounts with multi-million dollar balances. We’re talking about businesses where most of the net worth is tied up in inventory, accounts receivable, equipment and real estate.” *Karen Madonia, Chief Financial Officer, Illco, Inc., Aurora, IL; May 31, 2012 (on behalf of the Heating, Air Conditioning and Refrigeration Distributors International)*

“Under current [2012’s 35% top rate and \$5 million exclusion] law my heirs would be able to continue to operate the business keeping sixteen full time employees working and supporting their families. The business would continue to invest in new equipment and to provide services to the community where it is located. And most importantly for me, my heirs would be able to have the financial security I have spent the past 40 years working to provide for them.... If the estate tax reverts to the levels of 2000, my estate would be severely impacted. That could mean that sixteen good people who have given our company many years of service would no longer have a job. The businesses that provide products and services to our company could lose a good customer. But foremost, the economic security of my heirs will be uncertain.” *Michael G. Flesher, Owner, Taylor Rental Store, Vestal, NY; May 31, 2012 (on behalf of the American Rental Association)*



IV. Notable Comments from the Committee’s Small Business “Open Mic” Interactive Web Portal

A. Pass-Through Owners “Stay Small” to Avoid Even Higher Taxes

“I would be interested in hiring an employee and growing my business if it weren't for all the regulations and tax complications. Instead, I will remain a sole proprietor and not worry about it. Maybe if the tax code is every fixed I will reconsider the risks/rewards.” *Albert Wiersch, AI Internet Solutions, Dallas, TX; October 2011*

“...We are in protection mode, not growth mode as a small business. The uncertainty surrounding healthcare, estate tax, S-Corp tax liability, and overreaching local and federal government regulation has stifled most of us in business. I really don't see how anyone with enough capital to start a new business would even try in this country any longer....” *Matt Horn, Ditch Witch of Maryland, Inc., Sykesville, MD; September 2011*

“...My wife and I have a subchapter s corporation and all profit is just a pass-through and taxed at the maximum rate allowable by law. I would gladly pay more taxes IF I actually earned 250K a year. We already pay 100% of our 10 employees health insurance because it’s the right thing to do if you want happy productive employees. As we have grown I find that we are having to sell more and more for less profit. I am seriously thinking of scaling back and laying off people and just do less business since I get no reward for doing more....” *Sean Edwards, Engineered Air Inc., Bakersfield, CA; February 2013*

“We have been in business 32 years, as a family owned S Corp, and have weathered ups and downs before. We are at capacity with current staff and really should expand, but the uncertainty of what our healthcare costs will be next year, the prospects of higher taxes, the uncertainty of what will happen with the national debt and the economy are holding us back. Why should we expand, take on the additional headaches, if the government is just going to tax and take away what little more we would be able to make?” *Keith Kramer, Keith M. Kramer Associates, Inc., St. Louis, MO; July 22, 2012*

“...The most important obstacle to growth that small businesses face, especially those that have S Corp or LLC status, is the fact that we are taxed on our businesses' net income whether said income flows to our pockets or not. That means using precious cash to pay "PERSONAL" income taxes that could otherwise be used to hire new employees, train existing employees, develop new products, purchase capital equipment, etc. We should only be taxed on income that

does indeed flow to our pockets, which would free up cash resources to grow our businesses.”
Nate Rubin, Vantage ID Applications, Inc., Chula Vista, CA; December 2012

“I went with an S-Corp to minimize the tax consequences. Despite this, the state and fed take 40% of my profit. I am trying to build a contracting business, but need to bond my work. My bonding determines how much I can bid, and my bonding capacity is determined by my retained earnings. When 40% of my earnings goes to the Fed Gov. it greatly restricts my growth. I had hoped to add three jobs this year, but may only add one, and that only if I can get a couple more contracts. Cut taxes...” *Brett Hanke, Hanke Constructors, St. Louis, MO; September 2011*

B. The Need for Comprehensive Reform, Including Pass-Through Entities

I hear a lot about cutting the corporate tax rate as a fix for unleashing small business. None of the small business owners I know (myself included) are affected by the corporate tax rate. We are mostly S-Corporations. That means the tax burden is passed on to my personal income tax via K-1. I have to pay a firm over \$25,000 per year just to file the 300+ pages in tax returns. That's on top of the 30+ percent of my annual hard earned revenue that we have to pay each year. How can you lessen that burden?” *Bob Fitzgerald, BOSH Global Services, Newport News, VA; September 2011*

“I run a small real estate development, leasing and property management business that has already been negatively impacted by the current economic mess and the future looks grim. Because I am an S-Corp, all profits are taxed at the highest personal tax rate. Tax reform is a big priority for me. I don't mind so much the top tax rate going up so much as I do my lack of options for my business profits, most of which stay in the company to fund future investments. Under the current rules more will be taken away, leaving less to invest. The new health care situation is another hit on our company with the "Affordable" act making matters even more difficult. If Congress and the President don't get serious about long term solutions, and soon, I will be forced to lay people off in 2013. We cannot endure another (or more) recession. Anyone who doesn't believe that we are still in a recession (technical definitions aside) doesn't run a small business!” *Randy Green, Research Park Associates, Inc., Salt Lake City, UT; December 2012*

“We own a small federal contracting company that is an S corporation. All of the company's net income is passed through to its shareholders. We must then report the income on our own individual income tax returns. This is preferable to being a C corporation where the profits are taxed twice. But it also means that if the federal government raises our personal taxes, we have to pull additional money out of the company to cover the tax hit. That money is therefore no longer available to hire, to pursue innovations, or invest in equipment/software that position us to go after bigger opportunities. And make no mistake, you need working capital to hire employees... firms billing on a Net 30 basis need enough capital to cover at least two months of payroll for each new employee they want to hire. The bottom line is unmistakable: every extra dollar that is pulled out to cover higher taxes cannot be used for reinvestment or hiring.” *K. Kane, Kane Federal Services, Inc., Los Angeles, CA; December 2012*

"As an S Corp, we pay monthly taxes and then my business partner and I get hit hard with personal taxes at the end of the year. We did show a profit last year, but my business partner and I went without many paychecks during the year. We made about \$15,000 less than the previous 10 years!!! And we still had to pay several thousand in taxes personally. If the taxes keep going higher, it won't be a profitable business anymore." *June Hawkins, Neumann High Country Doors, Prescott Valley, AZ; July 2012*

"We are organized as a pass-through income business (S-Corp) and even the current tax structures are overly penalizing much less the proposed Obama tax structures. The bottom line is that taxes paid on pass-through income could be used to actually hire more staff (sales and engineering) to effectively grow our business. In effect, the government's demanded portion of our net-income stifles that growth because it's simply not interesting to carry the burden and risk of owning/operating a business without the reward of increased income for the ownership. Small business tax reform should be considered with the allowance for non-taxed retained earnings for entities other than C-Corps." *Gary Vaughan, Clearpath Solutions Group, Herndon, VA; July 2012*

C. The Importance of Lower Tax Rates

"For many of us small business owners we went years without taking a commensurate salary for our investment of time, and then when we finally make a profit it is taxed at about 50% between state and federal. I could expand my business, buy a larger building, hire more Americans if I could keep more of the money that we have earned. In our 24 years of business we have never taken distributions from our profit, and instead let it remain as retained earnings to keep the business going, and yet it is all pass-through to us personally for tax purposes so that we are counted among the rich. And now, under Obama's new tax rates, more of our earnings will be going to a Federal gov't that has not shown itself to be capable of handling our money in a responsible manner. It will hinder our ability to grow, which means less hiring in the years to come. We have experienced double digit growth for all of the past 11 years under the Bush tax cuts, save 2008. That tells you something." *Aly Salz, Righteous Clothing Agency, Inc., Clackamas, OR; February 2012*

"The thought of facing taxation at a threshold of \$250,000.00 income for a small business is counter productive to the health of our economy. We own a small landscape company with about 45 employees. During the years that we have had income of \$250,000.00 we have not personally seen a penny except for the withdrawals that are made to pay the income taxes. All the monies have been kept in the business to pay employees wages, taxes, employee benefits, company equipment, purchase goods, etc.. Keeping this money in the business has been essential cash flow to maintain the flow of business, while it is supporting the economy by having cash to spend as the company can grow. If the government needs to raise taxes it needs to be on \$1,000,000.00 of income and higher as at this level is when we would actually be able to afford to pay the tax. Anything lower will restrict our growth and ability to provide the company with the cash flow needed to stay in business successfully!" *Toni Warden, Garden Shop Landscaping, Sparks, NV; December 2012*

“We are wondering how we're going to afford keeping our employees. If the President doesn't compromise on the budget & taxes, we will be paying higher employee taxes & personal taxes. Then add the health care requirements, and we're going to have to let folks go because we won't be able to afford to keep them. How is any of this going to help grow our economy?” *Elsie Leslie, NCPS, Watertown, NY; December 2012*

“My small business just turned 10 years old. I am an electrical distributor specializing in wire and cable. I am an S-Corporation. The new taxes will keep me from hiring this year, even though I could use another employee. I pay more in taxes already than I take home. I, like many other small business owners, reinvest in the company and employees rather than taking the money for personal use. The new taxes are going to be very hard on my company. We cannot afford any more taxes or restrictions. Why are the hardest working people in America always being penalized. When did it become a bad thing to achieve success??” *Kim Irwin, Integrity Wire Inc., Huntington, WV; December 2012*

“I own an S-Corp that designs, installs, and commissions systems that provide cell phone and radio coverage inside of buildings. We have been doing this for 12 years and finally reached the 250K profit margin that the President doesn't like. We used the money to pay off the loans that we had to take out to keep operating in this recession and keep our 6 employees hired. As a result, I am paying taxes as if I made more than 250K, but really only paid myself 70K. The result is we are broke, but I feel like I am being punished for working hard....” *Mike Tackett, BTS Wireless, Inc., Littleton, CO; December 2012*

"As owner of a small business that just turned 5 years old and is a Subchapter S, we've grown from 3 employees to almost 50 in the last 5 years. The growth has kept our income low, as we've invested back into the company in the form of additional jobs and equipment. We have always had to tax plan at the year's end because we've never seen a penny of what the company has made, with the exception of what we've had to pull out for taxes on the income we've not seen. Bottom line, raising our taxes means we'll quit growing, lay off people and stay under the \$250K level for income. We are not the problem."
Steve Piechota, Netronix Integration, San Jose, CA; July 2012

V. Additional Suggestions for Small Business Tax Reform

The Small Business Committee has held hearings on topics ranging from the need for individual tax reform and the estate tax to keeping tax rates low. Testimony has been received from small business owners, academics, economists, and others. Over the years, those who have testified and submitted statements for the Committee's record have suggested the following reforms:

- Eliminate the estate tax
- Allow a portion of reserved capital to be taxed at the long term capital gains rate, or a portion of it to be excluded from taxation each year, to allow for business growth, expansion or job creation
- Allow at least a portion of capital used to increase employee wages to be taxed at a lower rate
- Codify a simplified home office deduction
- Allow owners of pass-throughs to set aside a portion of pre-tax income for investments in equipment
- Develop and adopt a uniform definition for the term "independent contractor."