



Opening Statement of Chairman Tom Rice
House Committee on Small Business
Subcommittee on Economic Growth, Tax and Capital Access
Hearing: “Cash Accounting: A Simpler Method for Small Firms?”
July 10, 2014

Good Morning. The hearing will come to order.

First, let me thank our witnesses for taking time to be with us today to talk about how to help small businesses prosper.

As a former tax attorney and CPA for nearly 30 years, I know firsthand that tax complexity is a big problem facing small business owners. Today, we are going to examine one way to simplify life for small firms by looking at the use of the cash method of accounting, which offers a simple, straight-forward solution for entrepreneurs to record business income and expenses. In cash accounting, a business records income and expenses at the time the funds are received or paid, just like with a personal checkbook. And, it makes it fairly easy to track cash flow – the life blood of many entrepreneurs. Perhaps because of this simplicity, it is the preferred method of accounting for small businesses.

The other, more complicated method, accrual accounting, requires a business to record income at the time a sale is made or an agreement to provide a service is reached, regardless of when the payment is actually received. By the same token, expenses are recorded when they are obligated to be paid, regardless of when funds are actually disbursed.

In determining which accounting method to use, small business owners must comply with the Internal Revenue Code. Specifically, all businesses are required to use the accrual accounting method, although exceptions exist.

Ultimately, whichever method is used can have very real effects on how a small business operates. Given this, it would be in the interest of us here in Washington to ensure our nation’s job creators have the flexibility to use the accounting method that best suits their operations and gives them the best chance to succeed.

We are fortunate to have with us a group of leaders within the accounting community, both industry experts and small businesses that help other small firms with their accounting services. I look forward to learning first-hand how they perceive the utility of cash accounting for small businesses, and how we could make cash accounting even easier for small businesses to use.

With that, I would like to thank our distinguished panel of witnesses for being here today and I now recognize the Ranking Member for her opening statement.