**Small Businesses Tax Reform Roundtable**

**U.S. Senate Committee on Small Business and Entrepreneurship**

**Introductory Comments of**

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Thank you for discussing tax reform and small business and the invitation to participate in today’s roundtable. I’ll offer a few points briefly at the start. I’d be glad to elaborate further today and submit detailed written testimony on these items as well as others raised today.

1. What is a “small” business? Too many parameters and bases are currently used to define this term. Use the easy ones, such as gross receipts rather than full-time equivalent employees and consider that many small businesses have no employees.
2. Consider trends to help modernize our tax system. These include growth in numbers of self-employed entrepreneurs, working out of your home, greater focus on intangible assets, and the reality that today, any size business is likely involved in international and multistate operations.
3. Consider appropriate use of technology to ease compliance. Why can’t filing of a return, W-2s and 1099s be as easy for a small business as ordering something from Amazon?
4. Improve equity among rules such as allowing self-employed to deduct health insurance in computing self-employment tax, and enabling similar funding access among entity types, such as through Sections 1202 and 1244. Be sure the research credit includes R&D on cloud computing solutions and helps start-ups with a partially refundable credit.
5. Improve certainty for inherently complex rules, such as worker classification, by allowing use of a safe harbor Q&A checksheet.
6. Include measures to reduce the tax gap to help reach revenue-neutral reform and improve fairness among taxpayers.
7. Encourage and help states to join in tax reform to ensure small businesses don’t continue to face complexity at the state level.
8. Simplify! If you cannot describe in a few simple sentences how a rule works or it requires alternative calculations, the rule is not simple and either needs to be revised or repealed.
   1. Recognize that for small businesses, simplification may trump accuracy. For example, a standard deduction for home office expenses, may be warranted to simplify compliance. Or, tax forms may need to be consolidated, such as is allowed for employers of household employees.
   2. Avoid temporary provisions and numerous changes that complicate the tax law and increase compliance costs.
   3. Simplify depreciation by expanding Section 179 to a permanent, inflation-adjusted large dollar amount that also covers all intangible assets, such as acquisition of a domain name.
   4. Avoid new complexities disguised as small business benefits, such as a deduction for domestic business income of qualified small businesses. Lower tax rates and simplicity are the best tax benefits.
   5. Find ways to consolidate duplicative provisions, such as multiple retirement plan options.
   6. Require administrative alternatives to compliance with regulations found to exceed a minimum complexity tolerance level for small businesses.
9. For the Senate Finance Committee’s “blank slate” approach to tax reform, let them know that key tax expenditures for small businesses include use of the cash method,[[2]](#footnote-2) Section 179 expensing, retirement plan provisions, and the self-employed medical insurance deduction.
10. Once you have draft legislation, get input from small businesses and tax practitioners.
11. Pursue multistate tax reforms that will help small businesses such as ones to simplify and clarify payroll requirements for virtual and mobile employees, as well as income and sales tax nexus rules.
12. Evaluate all proposals for change against the principles of good tax policy.[[3]](#footnote-3)

Thank you. I look forward to the discussion.

1. This URL is to a website maintained by Annette Nellen for the purposes of promoting modernization of tax systems and consideration of the principles of good tax policy, with opportunity for readers to post comments. Views represented at this website are Professor Nellen's views only and may not represent those of her employer or professional organizations of which she is a member. [↑](#footnote-ref-1)
2. Note that the Joint Committee on Taxation treats use of the cash method as a tax expenditure, but OMB treats it as part of the normal income tax structure. [↑](#footnote-ref-2)
3. See <http://www.cob.sjsu.edu/facstaff/nellen_a/TaxReform/PolicyApproachToAnalyzingTaxSystems.pdf>. [↑](#footnote-ref-3)