

United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

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August 2, 2017

The Honorable Orrin Hatch
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Chairman Hatch and Ranking Member Wyden:

As the Chairman and Ranking Member of the U.S. Senate Committee on Small Business and Entrepreneurship, we write today to urge you to consider the interests of small businesses as you look at ways to reform the tax code. In particular, we would like to draw your attention to a hearing held by our Committee on Wednesday, June 14, 2017, entitled, "*Tax Reform: Removing Barriers to Small Business Growth*." This hearing highlighted the overarching issues small businesses face with the current tax structure and ways in which tax reform can benefit our country's job creators.

Small businesses are the backbone of our economy, creating two out of every three net new jobs in the United States. That is why it is essential that any tax reform considered by the Senate take into account the unique burden that the federal tax code imposes on small businesses and ensure that Main Street businesses benefit from tax reform.

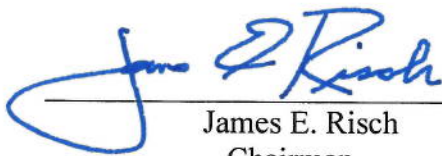
Today, 95 percent of businesses are considered sole proprietorships or pass-through entities, earning more than half of business income earned in the United States. Although large businesses account for most pass-through income, the vast majority of small businesses have taken advantage of organizing as pass-throughs. As you consider reforming the tax code, we urge you to keep in mind that small businesses do not stand to benefit significantly from corporate-only changes. At the same time, any reforms to the individual side of the code should focus on benefitting truly small businesses, and any potential preference for pass-through business income must include appropriate safeguards in order to prevent abuse and mischaracterization of income.

Over the years the tax code has grown more complex, which in turn has caused the compliance burden for small businesses to increase. Small businesses by their very nature have a smaller number of employees and by extension, largely are unable to employ accounting or human resources personnel to help them comply with the tax code. Consequently, 89 percent of small businesses rely on outside tax preparers. The compliance burden for small businesses is also 67 percent higher than it is for large businesses at a cost of \$18-19 billion per year. Small businesses also spend their most precious resources – their time – complying with the tax code, to the tune of 2.5 billion hours per year. A simpler tax code that is easier to navigate would allow small businesses to refocus time and resources spent on compliance into growing and expanding their businesses.

The two largest policy issues small businesses raised in the discussion about tax reform – Section 179 expensing and cash flow accounting – represent opportunities to reduce complexity for small businesses. Section 179 expensing allows a small business to immediately deduct the cost of investing in their business, which enables them to re-invest in their businesses rather than spreading the deductions over a long depreciation schedule. Expensing also reduces tax complexity by eliminating the paperwork and record-keeping burden associated with longer depreciation periods. Witnesses present at the July 14 hearing unanimously support Section 179 expensing as an important small business provision that should be preserved with potential consideration for enhancing its benefits. Because it is simpler than the accrual method, cash flow accounting also helps reduce complexity for small businesses by decreasing record keeping and paperwork costs, while more accurately reflecting small business expenses. Currently, businesses making less than \$5 million are permitted to use this method, and small businesses, as well as tax experts, have suggested to the Committee that raising this threshold would prove beneficial to many small businesses.

Thank you for your consideration of the vital role small businesses play to the health and growth of our economy during your deliberations on tax reform. We look forward to working with you to improve the outlook for small businesses and their opportunities for growth.

Sincerely,



James E. Risch
Chairman



Jeanne Shaheen
Ranking Member