



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

Good morning. I call this hearing to order.

I want to thank the witnesses for testifying today. We appreciate your participation.

The news today for small business owners is not good. The economic recovery is weak. Small businesses are still struggling, credit remains tight and forecasts indicate weak hiring will continue. Washington, which should be making job creation easier, is instead creating more hurdles, with the constant threats of higher taxes, excessive regulations and our unsustainable debt. It seems that no one has a bigger target on his back than the small business owner.

As Congress turns its attention to tax reform, the budget deficit, and pro-growth policies, today this Subcommittee will focus on the importance of tax reform to small businesses. Specifically, we will examine the need for individual tax reform for “pass-through” organizations – those that pass through their income and tax liability and pay taxes on their owners’ individual tax returns, rather than on a corporate return.

According to a recent study by Ernst & Young, about 95% of businesses – and over 80% of small businesses – are organized as pass-throughs. These companies, such as LLCs, partnerships, S Corporations and sole proprietorships, represent 54% of all business activity and employ 54% of the private sector workforce. Our local small businesses, not the government, will create the jobs and pull us out of this recession.

The Internal Revenue Service’s National Taxpayer Advocate has said that the most serious problem facing taxpayers is the complexity of the tax code and the need for reform. Studies have shown that the cost of tax compliance for small businesses is 67% higher than for larger entities.

Pass-throughs are becoming more prevalent; between 1986 and 2005, their number more than doubled, while the number of C corporations declined. Enacting policies that will keep pass-through taxes low will help small businesses to spur our economy. It is especially important that we consider revamping the tax code in a way that generates jobs and economic growth.

Common sense tax and regulatory reform for small businesses will help us do just that. I recently introduced legislation, H.R. 2945, to index the capital gains tax to inflation. Americans should not have to pay capital gains tax on an asset purchased twenty years ago and sold today but increased in value only due to inflation. Making this simple change would allow small business owners to create jobs and grow the economy.

Today, we will hear from an economist and small business owners about why individual tax reform for pass-through entities – and not just corporate reform -- must be a part of fundamental tax reform.

Finally, I must say a word about President Obama's "jobs plan." In August 2009, the President said, "The last thing you want to do is to raise taxes in the middle of a recession..." But yet that is what he has proposed. Small business owners know that you can't raise taxes and expect employers to create jobs, especially in a recession. Let's listen to our nation's best job creators and consider policies that will truly jump-start hiring and lead to long-term economic growth.

Again, thanks to our witnesses for participating today. I look forward to hearing input on how we can reform the tax code so our small businesses are able to expand, create jobs and help our economy grow.

I now yield to Ranking Member Schrader for his opening statement.