



**“Small Business Tax Reform:
Modernizing the Code for the Nation’s Job Creators”**

Written Statement for the Record

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Committee on Small Business
U.S. House of Representatives
The Honorable Steve Chabot, Chairman

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Chairman Chabot, Ranking Member Velazquez and Members of the Committee, thank you for allowing me to participate in this important hearing today on behalf of the Small Business & Entrepreneurship Council (SBE Council). In addition to acting as SBE Council’s Entrepreneur-in-Residence, I am also the co-owner of Popped! Republic Gourmet Popcorn, a small business in Alexandria, Virginia.

SBE Council is a nonpartisan, nonprofit advocacy, research and education organization dedicated to protecting small business and promoting entrepreneurship. For nearly 25 years SBE Council has worked to advance a range of policy and private sector initiatives to strengthen the ecosystem for startups and small business growth. We have a nationwide network of more than 100,000 members and as one of those members, I welcome this opportunity to discuss the importance of tax reform to small business, at all phases in their business lifecycle, and the positive impact it can have on our economy.

In the September 25, 2017 CNBC/SurveyMonkey Small Business Survey of over 2,200 business owners, taxes topped the list of "critical issues," for small business, beating out health care, regulation, and customer demand. This issue is not solely a small business issue - nearly nine in 10 CEO chief executive respondents to the Business Roundtable's September 2017 economic outlook survey identified the tax code as the most important disadvantage to the U.S. economy relative to other major economies. The great unifier amongst businesses big and small is their ire for the U.S. tax code and the anxiety derived from three simple letters – the IRS.

The U.S. business community is in dire need of a tax code that encourages investment and growth, fosters new business creation, and alleviates the excessive compliance burden costing businesses both substantial time and money. Three ways to accomplish this – tax cuts, tax reform, and tax simplification.

Tax Simplification & Tax Reform

With over 2.4 million words, the tax code is so overwhelming that it is extremely difficult for small business taxpayers to reliably and accurately comply with the breadth of tax regulations. Most especially, the smallest businesses among us who cannot afford an accountant or CFO to consistently monitor the tax code and tax policy are the most disadvantaged.

According to a 2016 Tax Foundation study, Americans will spend more than 8.9 billion hours complying with IRS tax filing requirements in 2016. The majority those hours was spent complying with business tax regulations (2.8 billion hours) and individual income tax requirements (2.6 billion hours.) The price tag for this compliance burden was \$409 billion last year.

On top of the compliance burden, our tax code has not kept pace with our changing economy. Technology has been a game changer in the way we do business, evident by the explosion of ecommerce and the sharing economy. Policymakers need to consider changes to the tax code to bring it into the 21st Century.

The Small Business Owner's Tax Simplification Act (H.R. 3717), cosponsored by Chair Chabot and Ranking Member Velazquez on this committee is a necessary first step and would bring about much needed simplification and reform to our tax code.

Key provisions such as increasing the dollar threshold required for filing a 1099–MISC form from \$600 to \$1,500, aligning quarterly reporting deadlines, and allowing business owners to both offer and participate in Cafeteria Plans would mitigate compliance challenges as well as expand benefit offerings for small businesses.

Additional Recommendations

To further modernize the code, SBE Council recommends that the committee look at the current \$400 threshold on self-employment taxes, which has never been updated. If the self-employment tax floor had been adjusted at the same rate as the standard deduction on federal income, which is adjusted

annually, it would be more than \$6,000. Updating this threshold would give new entrepreneurs a better chance for success and encourage more people to start businesses.

Similar to the expansion of Section 125 Cafeteria Plans laid out in H.R. 3717, we encourage the committee to also consider the expansion health reimbursement arrangements (HRAs) found in Section 105 of the Internal Revenue Code. HRAs are a flexible benefit option that allows small business owners to reimburse employees tax free for out-of-pocket medical costs, including health insurance premiums.

Key features of an HRA is that they do not require the business owner to purchase a group health plan nor require any contribution from employees out of their paycheck. Thus, business owners unable to provide health insurance as a benefit to their workers due to affordability and those with lower wage staff that cannot afford to set aside funds, can utilize an HRA to offer some financial assistance to their employees for their health costs. Unfortunately, like Cafeteria plans business owners cannot participate in their own HRA. SBE Council supports amending HRAs to allow business owner participation.

Tax Cuts

Providing tax cuts to small business and their corporate partners are also a vital component to kickstarting economic growth. SBE Council supports reducing both the tax rate of pass-through entities and the corporate tax rate.

Over 90% of businesses are— LLCs, partnerships, sole proprietorships or S corps - that pay their taxes based on their individual income tax rate. For these business, every dollar is typically reinvested back into their business to help with operations and growth.

Our business, Popped! Republic Gourmet Popcorn, is currently structured as an LLC. This structure dictates that we pay taxes based on our individual income tax rate and as owners we are not considered employees thus when we pay ourselves, we are then responsible for paying estimated taxes to the IRS. Additionally, as our revenue grows we need to be mindful of our tax status to ensure we are not faced with a huge tax bill at the end of the year. Thus, tax cuts and tax reform are very important to us and our business, as well as something we are always thinking about as we make business decisions.

We hit our 5-year anniversary this May, at present have 11 employees and are currently in growth mode. We now operate a store in Alexandria, VA, a mobile food truck in D.C. and we just opened a kiosk location at the Fort Belvoir Military Base. We are working to add another retail location in northern Virginia which would create an additional six to eight jobs. We would like to fund this growth with the revenue from our existing business operations.

Tax cuts on pass through entities such as ours, would allow us to keep more of our money to fund this expansion and minimize our need to take on increased debt. Growth, job creation, and enhancing the local economy – the exact mantra we've heard from lawmakers year over year.

You may ask, why should a small business care about the corporate tax rate. Reducing and reforming the corporate income tax rate is not just a “big business” issue. According to the latest Census Bureau data, 86 percent of corporations have less than 20 employees, and 96.7 percent less than 100 workers. Many of these businesses are in high-growth sectors, and they – as well as their employees and our economy – would benefit tremendously from reducing the corporate rate. Additionally, small

businesses such as our gourmet popcorn company, do significant business with corporations and large companies. Their health and competitiveness impacts our bottom line.

Reducing the tax rates for small and large businesses alike would provide a needed jolt to the economic ecosystem in our nation to spur growth and job creation.

Conclusion

A surprising “Gap Analysis” report on entrepreneurship release by SBE Council this year found that there is a massive shortfall of businesses – some 3.4 million “missing” businesses, compared to where we should be based on historical trends and key data related to incorporated and unincorporated self-employed, and employer firms as shares of the relevant population. A top priority of SBE Council is to promote policy that will enable greater levels of business ownership and support existing entrepreneurs.

We believe that a pro-growth tax code is vital to reinvigorate entrepreneurship and improve the competitiveness of the U.S. economy. Our nation needs a tax code that enables small business sustainability and growth – the combined approach of tax cuts, tax reform and tax simplification will get us there.

We appreciate this committee’s consistent support of small businesses and commitment to work together to find bipartisan solutions to the challenges business owners face on this issue and others.