

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

July 24, 2017

The Honorable Peter Roskam
Chairman, Subcommittee on Tax Policy
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Roskam:

As Chairman of the House Committee on Small Businesses, I commend you on your “How Tax Reform Will Help America’s Small Businesses Grow and Create New Jobs” hearing. Compliance with the United States tax code is a major concern for small businesses throughout the nation.

With over 29 million small businesses in the United States,¹ the health of the economy is intricately linked to the nation’s smallest employers. Recently formed businesses are responsible for creating two out of every three new jobs. If a new job is created in your community, there is a good chance it was born out of a small business. Beyond job creation, small businesses are a main driver of innovation for the economy. In fact, when it comes to patents, small-young firms acquired 2.41 times as many patents as compared to large-young firms for every dollar spent on research and development.² Whether it is in their garage or a university laboratory, entrepreneurs are constantly striving to create the next great American company. Each step small businesses take in their quest drives the economy forward.

However, despite signs of an improving economy, small businesses still face hurdles that prevent job creation and expansion. As Chairman, I hear from small businesses on a daily basis about the sacrifices they make in order to sell an additional product or offer an additional service. Their stories are inspiring. Hard work is not a goal for these individuals, rather it is a reality. Notwithstanding the hours they invest in their work, challenges exist that prevent growth. Unfortunately, data indicates the severity of the problem. On average since the Great Recession,

¹ SBA OFFICE OF ADVOCACY, SMALL BUSINESS PROFILE (2017), *available at* https://www.sba.gov/sites/default/files/advocacy/United_States_1.pdf.

² JOSE PLEHN-DUJOWICH, PRODUCT INNOVATIONS BY YOUNG AND SMALL FIRMS, SBA OFFICE OF ADVOCACY (2013), *available at* <https://www.sba.gov/sites/default/files/files/rs408tot.pdf>.

new business closings or deaths have outnumbered new business starts or births.³ More poignantly, job creation by firms less than a year old went from over 4.7 million jobs created in 1999 to 3 million jobs created in 2015.⁴

While many hurdles stand in their way, small businesses continue to point to the burdensome nature of the country's tax code as a major roadblock. Within the NFIB's Small Business Problems & Priorities 2016 report, five of the top ten concerns for small businesses are tax related.⁵ From the complexity to the uncertainty, complying with the United States tax code continues to disallow a robust small business ecosystem.

As small business owners and employees develop a new idea and launch their product or service into the marketplace, they often do not have a team of tax advisors on staff or on retainer to handle the implications that arise with the tax code. They are simply in the mindset of creating, producing, and selling a product or service. Once launched, the small business owner is confronted with a tidal wave of tax compliance decisions and issues.

While simultaneously confronting tax issues, not to mention regulatory challenges, the pioneering small business owner must continue the operations of the business. However, breaking even or turning a profit often takes years to realize. The treatment of net operating losses in the tax code presents problems for young small businesses. Any tax reform discussion should be mindful of how a small business, that may take years to grow and expand, might be impacted by the treatment of business losses.

Beyond net operating losses, the complexity of the depreciation schedules prohibit small business expansion. Although Section 179⁶ of the tax code helps, too many expanding small businesses fall through the cracks and pivot away from investment opportunities due to the rules that govern how an investment is deducted and for how long. Certainty and clarity should be front and center as talks surrounding depreciation are considered.

Moreover, with 90 percent of all businesses in the United States classified as a pass-through entity⁷, and therefore their taxes are administered through individual tax returns, all deep and comprehensive conversations must take into account how an overwhelming majority of businesses calculate their taxes. Looking beyond percentages, in 2014, over 20 million businesses were sole proprietors, compared to roughly 2.5 million C corporations.⁸ Not only are

³ ECONOMIC INNOVATION GROUP, DYNAMISM IN RETREAT: CONSEQUENCES FOR REGIONS, MARKETS, AND WORKERS (2017), available at <http://eig.org/wp-content/uploads/2017/07/Dynamism-in-Retreat-A.pdf>.

⁴ U.S. BUREAU OF LABOR STATISTICS, BUSINESS EMPLOYMENT DYNAMICS, ENTREPRENEURSHIP AND THE U.S. ECONOMY (April 28, 2016), available at <https://www.bls.gov/bdm/entrepreneurship/entrepreneurship.htm>.

⁵ HOLLY WADE, NFIB SMALL BUSINESS PROBLEMS AND PRIORITIES (2016), available at <http://www.nfib.com/assets/NFIB-Problems-and-Priorities-2016.pdf>.

⁶ 26 U.S.C. § 179.

⁷ SCOTT GREENBERG, PASS-THROUGH BUSINESSES: DATA AND POLICY, FISCAL FACT, TAX FOUNDATION (Jan. 2017).

⁸ *Id.*

pass-throughs more voluminous than C corporations in sheer numbers, but they are also recording more net income.⁹

The country runs on the hard work of small businesses. When you walk into a local Main Street store, you know the determination it takes to turn the lights on every day. It is not an easy task, yet millions of small businesses persevere against many odds. As the House Ways and Means Committee continues to discuss tax reform, I know you will keep small businesses at the forefront of the conversation, because when small businesses are growing and expanding, so does the economy.

Sincerely,

A handwritten signature in blue ink, reading "Steve Chabot". The signature is fluid and cursive, with the first name "Steve" and last name "Chabot" clearly distinguishable.

Steve Chabot
Chairman
Committee on Small Business

⁹ *Id.*