

Congress, the clock is running out on small business tax reform

BY STEPHEN MOORE AND ALFREDO ORTIZ

In last week's address to Congress, President Trump called for comprehensive tax reform to help American businesses that labor under some of the most anti-business tax rates and rules in the world.

While Republicans in Congress work to turn this rhetoric into reality, and get bogged down in debating the comprehensive tax reform facets like the border adjustable tax, American small business job creators need and want tax relief now.

Small businesses are unique because they do not have access to the tax lawyers, lobbyists, and fixers of their wealthier and better connected counterparts.

That's why tax reform must be broader than just focusing on the country's anti-competitive corporate tax rate — it must focus on providing relief for America's 28 million small businesses and the 85 million Americans who owe their livelihoods to them.

These businesses have been struggling under the weight of a 40 percent marginal federal tax burden, which can reach 50 percent when state taxes are included, and 60 percent when payroll and other taxes are added in. That's nearly the most onerous in the world, according to the Tax Foundation.

Is this any way to treat the job creation engine of the economy? Small businesses account for two-thirds of new jobs, half of existing jobs, and a significant portion of the new innovations that improve our quality of life. This heavy tax burden dramatically reduces their ability to expand, create jobs, and raise wages. Two out of three small business owners admitted as much in a recent nation-

wide poll conducted by the Job Creators Network.

Economic indicators also suggest small businesses are struggling. A new JPMorgan Chase study shows that small business expansion is negligible. Meanwhile, the decades-long slowdown in new business creation continues. The share of businesses less than a year old has plummeted by one-third and their employment share by half since the 1980s.

Yet small business optimism has surged since the election of Donald Trump. Owners are hopeful that the "you didn't build that" mentality in Washington for the past eight years has come to an end.

Tax relief would provide a greater incentive to start and grow businesses, which would employ some of the tens of millions of Americans who are part of the long-term unemployed, "prime-age" quitters of the labor force, and underemployed. Outside of Washington the business owners and workers laugh when they hear that unemployment rate is less than 5 percent. Correctly measured, one in 10 Americans is unemployed.

What would such small business tax reform look like? House Ways and Means Committee Chairman Kevin Brady (R-Texas) has a good tax bill that would chop the tax rate to 25 percent. That's a start. Even better is a bill called the Bring Small Businesses Back Tax Reform Act, which will be introduced tomorrow by Reps. Rand Hultgren (R-Ill.) and Jason Smith (R-Mo.). This bill would lower the tax rate on the first \$150,000 of small business income to only 12 percent, and to 25 percent for all income above that threshold.

While some critics argue against lower taxes on small businesses for fear of "gaming the system" and "avoiding payroll taxes," there is a solution: create a simple, straightforward rule with appropriate safeguards around reasonable compensation. This would end years of legal controversy and uneven IRS enforcement. Some business owners may not like such a rule, but this opposition cannot stand in the way of real tax relief for millions of others.

Hultgren and Smith's legislation would allow for immediate expensing of all equipment, meaning an end to the hassle of complicated depreciation schedules and reduced tax compliance costs. The third and final part would allow for cash accounting, allowing small businesses to defer income declaration until payment is actually received.

Such small business tax relief is needed now. While comprehensive tax reform for individuals is a worthy effort, that may take time to work out. For now, congress should deliver pro-jobs business reform. It's been 30 years since businesses have gotten a break from IRS tyranny and delivering relief this year will help employers and their workers alike.

We even think a business tax reform bill for these 85 million Americans who depend on small businesses will get the backing of some Democrats. Who isn't for small business and jobs?

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