

# THE ORANGE COUNTY REGISTER

April 20, 2017

## Tax Day should usher in tax reform

*By: Alfredo Ortiz*

Tuesday was Tax Day — a day when everyone is reminded of how much Uncle Sam takes out of their paycheck. It's also a moment to remember that individuals aren't the only ones to fall prey to the U.S. federal government's revenue grab; businesses are also mandated to fork over a huge portion of their earnings.

Compared to most other developed countries around the world, the United States has the highest corporate tax rate of 35 percent — which puts it at a competitive disadvantage when competing for private investment dollars. Countries like Ireland or Switzerland are able to attract businesses and their monetary resources because they have corporate tax rates of 12.5 percent and 18 percent, respectively.

This competitive disadvantage has very real problems. Between the years of 1950 and 2000, the average annual growth of business-fixed investment — or the amount of money spent by businesses on physical assets such as machinery, land and technology — in the U.S. was 5.3 percent. But since 2000, it's fallen to just 1.7 percent. This is lost investment that could have been used to expand businesses domestically, creating jobs and opportunities for everyday Americans. But instead, some of it was invested in foreign markets that have lower corporate tax rates than that of the U.S.

With these high tax rates threatening the strength and vitality of the U.S. economy, the Trump administration is poised to tackle the issue. President Trump recently said, "Now we're going for tax reform, which I've always liked." President Trump has previously endorsed a plan that would lower the corporate rate to between 15 and 20 percent, which would boost job creation and help tackle the persistently low labor force participation rate. However, there's one problem. This plan doesn't include tax relief for the country's biggest job creators — small businesses.

There are 29 million small businesses and they provide employment for roughly half the U.S. workforce. All-together, 85 million people are dependent on the success of them — which is why we can't let them fall through the cracks as we focus on

the more expansive enterprises.

Yet these businesses usually aren't subjected to the traditional corporate tax rate that Trump intends to address. The vast majority of small businesses are set up as sole proprietorships, partnerships or S-corps — whose profits are "passed through" to the owner and counted as individual income on their personal tax returns. That's why these businesses are often referred to as "pass-throughs."

Because of their company structure, these entrepreneurs can pay tax rates as high as 40 percent — and that doesn't even include state or local tax mandates. This means small businesses are paying higher tax rates than U.S. industry giants and their foreign competitors.

Higher tax rates means less money to invest, hire and spend locally. To contend with these tax rates, small businesses are forced to raise prices, reduce employment opportunities and corrode benefit packages to stay in the black. But as evidenced by a recent Job Creators Network poll of small business owners that found over-taxation is by far their biggest burden, these measures often aren't enough to stay in business.

Small business owners need tax reform now and U.S. Representatives Randy Hultgren and Jason Smith have already introduced legislation that will do just that. The bill, H.R. 1425, is designed to reduce the tax burden placed onto our nation's "pass-through" businesses — filling in the gap that traditional corporate tax reform leaves vacant. It would reduce the tax rate on the first \$150,000 of earnings to 12 percent and 25 percent for all earnings above this threshold. It would also simplify the filing process allowing small business owners to get back to what they do best: creating jobs.

Everyone feels the pain on Tax Day, but remember you're not the only one suffering. Let's hope tax relief for businesses big and small comes before the next Tax Day.

*Alfredo Ortiz is the president and CEO of the Job Creators Network.*