

THE HILL



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Congress, pass small business tax reform now

By: *Doug Haugh*

On Wednesday, the Trump administration announced principles for comprehensive tax reform. While such broad-based reform that addresses the corporate and individual tax burden is necessary, it is unclear how such a plan would overcome the same hurdles that felled healthcare reform. These hurdles include being moderate enough to pass the Senate, and being conservative enough to get support from the so-called Freedom Caucus in the House.

In other words, while comprehensive tax reform might be ideal policy, it has little chance of passing politically. In this environment where the administration and Republican-led Congress are desperate for a political win, these reform plans are a recipe for more inaction.

Rather than waste more precious legislative time, Congress should pass specific tax reform that could be supported by Democrats while still bringing much-needed relief to tens of millions of Americans. The tax reform plan that meets these criteria is one that addresses the needs of American small businesses.

Roughly 85 million Americans depend on the success of small businesses for their livelihood. Including their families that number increases by tens of millions. Small businesses are one of the last constituencies yet to be politicized. From red states to blue, from Millennials to Baby Boomers, over 80 percent of voters view small business favorably, meaning such reform could pass with strong bipartisan support.

Yet currently small businesses suffer under the weight of combined federal and state marginal income tax rates that approach 50 percent. Including payroll and other taxes, this rate can reach 60 percent. It's no wonder that two-thirds of small business owners list over-taxation as their number one hurdle according to a recent poll from the Job Creators Network.

As president of Atlanta-based Mansfield Energy, I've experienced the difficulty of trying to grow a small business in this tax environment. Only when you know how difficult it is to accumulate the capital required to invest in hiring and new products can you appreciate the challenge of building a business when you keep less than half of what you earn. Our young managers typically have no idea of this tax burden and its impact on business growth.

As a result, small businesses are struggling. More Americans now work for large employers of 2,500 employees or more than ever before. The number of new small business startups has shown no recovery from the Great Recession and continues its steady decline. And the market-share growth of big businesses within almost all sectors has risen substantially over the past decade or so. For instance, the share of all airline revenue collected by the four largest companies has increased from one-third to two-thirds between 2002 and 2012. Call it the oligopolization of the economy.

Legislation that addresses the high tax rates that are currently holding small businesses back already exists. The Bring Small Businesses Back Tax Reform Act, recently introduced by Reps. Randy Hultgren (R-Ill.) and Jason Smith (R-Mo.), would lower the tax rate on a small businesses' first \$150,000 worth of earnings to 12 percent and to 25 percent on all earnings above that threshold. For the more than 80 percent of small businesses that earn \$150,000 or less, this bill would give them the much needed stimulus to compete with their better capitalized peers.

Consider the savings a typical small business with \$200,000 in pre-tax earnings would enjoy. Under the BSBB bill, this business would pay \$30,500 in tax. That's 39 percent less than the nearly \$50,000 of tax it has to pay under the current tax system. Where would these tax savings go? Back into the business and the community, stimulating Main Streets that still have not fully recovered from the Great Recession.

The BSBB bill also reduces tax complexity and allows for cash accounting, meaning small businesses don't have to pay tax on something until they have actually earned the revenue from it. Currently one-third of business owners say that they spend over 80 hours a year completing their taxes.

While comprehensive tax reform is a worthy goal, if small business reform can pass by itself, Congress and Trump should move forward with it. Reducing the tax burden on small businesses which create two-thirds of the country's new jobs and half of all its jobs is still a broad tax reform victory.

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