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TAX DAY: EXPLORING THE ADVERSE EFFECTS OF HIGH TAXES AND A COMPLEX TAX CODE

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BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

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TAX DAY: EXPLORING THE ADVERSE EFFECTS OF HIGH TAXES AND A COMPLEX TAX CODE

WEDNESDAY, APRIL 10, 2024

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:04 a.m., in Room 2360, Rayburn House Office Building, Hon. Roger Williams [chairman of the Committee] presiding.

Present: Representatives Williams, Stauber, Meuser, Van Duyne, Molinaro, Alford, Bean, Lalota, Velázquez, Landsman, McGarvey, Gluesenkamp Perez, Scholten, Thanedar, Chu, Davids, and Pappas.

Chairman WILLIAMS. I want to welcome everybody here today, and before we get started, I want to recognize Congressman Bean from the great state of Florida to lead us in the pledge and the prayer. Would you please stand?

Mr. BEAN. Thank you very much, Mr. Chairman. Let us pray. Heavenly father, we are grateful for this day. The gift of today. What are we going to do with it? We ask for energy and a sense of purpose and direction. Lord, we give thanks for small business, the people that put America to work and have created one of the greatest systems of economic stability. We ask those hands that are first to show up at work, last to leave and last to get paid, that just—we bless them. We know that they are the engine of putting other people to work and putting dinner on the table. We ask a blessing on our country, our leaders, and our defenders. And everybody said together, amen.

Join me in the pledge, ladies and gentlemen. I pledge allegiance to the flag of the United States of America. And to the Republic for which it stands, one nation under God, indivisible, with liberty and justice for all.

Chairman WILLIAMS. I now call the Committee on Small Business to order. Without objection, the Chair is authorized to declare a recess of the committee at any time. I now recognize myself for my opening statement.

Good morning to all of you, and welcome to today's hearing, which will focus on how tax policy significantly impacts our nation's small businesses. I would like to start off by thanking our witnesses for joining us today, and your attendance is greatly appreciated, and we value your input and expertise on these issues. As our nation's job creators continue to face harsh economic

headwinds, we must ensure the Tax Code works for them, not against them.

And in 2017, Congress passed the Tax Cuts and Jobs Act, the most significant changes in the Tax Code in decades. The TCJA lessened the tax burden on small businesses and provided much needed relief for all Americans. When small businesses get to keep more of their money, they put it to work in either their business or their communities. I believe that the cuts fundamentally provide how cutting taxes is good for small businesses, good for all Americans, and good for our economy.

You don't have to just take my word for it, though. The year following the tax laws enactment, businesses revenue went up and generated the highest single year increase in government revenue since 1977. This bill also helped families. In the 2 years following the TCJA's enactment, the median household income increased by $5,000. Unfortunately, some of the main provisions in this law are starting to expire, which will make it harder for businesses to continue their operations. The House of Representatives acted in January and passed a bipartisan bill to extend some of these key provisions affecting the small business community. But unfortunately, this bill is still waiting for Senate action.

I hope the stories from our witnesses here today will help spark action by impressing the bill's benefits and the time sensitive nature of these tax policies. This morning, higher than expected inflation reading shows that President Biden's tax and spend policies continue to hurt everyday Americans. Not only that, with inflation remaining stubbornly high, it will likely force the Federal Reserve to keep interest rates high, which will make it more challenging for businesses to access capital. As the small businesses continue to deal with inflation, labor shortage and onslaught of burdensome regulations, it is imperative that we don't allow the Tax Code to further penalize success.

In addition to larger tax liabilities, if these provisions expire, business owners are facing a new, troubling reality. Statistics show that small businesses are receiving audits at an alarming rate. On average, small businesses owners will pay over $1,000 per year to have a CPA firm prepare their taxes, and that is money they don't have. This is just another cost that a business owner has to write off as a loss when those dollars could help build on their core business model. We in Congress must make small businesses—are not forced to play defense against an overly aggressive IRS. Unfortunately, we also saw in the President's budget that he wants to increase taxes on many small businesses. We can't tax our way into economic growth and need to let our job creators do what they do best and generate economic activity for their communities and everybody.

I would like to once again thank our witnesses for being here with us today. I am very much looking forward to our conversation. And with that, I want to yield to our distinguished Ranking Member from New York, Ms. Velázquez.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. Good morning, everyone, and thanks to the witnesses for being here with us this morning. Main street businesses are the lifeblood of our nation's economy, driving innovation and job creation and helping millions

of Americans achieve their American dream. As such, they are key to our federal tax strategy. When our tax system works for them, it brings the most value. However, despite their fundamental importance, small firms are often used as bargaining chips in the discourse around tax reform, while wealthy individuals and large corporations cash in. As a result, our tax system has grown increasingly complex and uncertain, and Congress is forced to jump from one tax extender package to another.

Meanwhile, our main street firms are left with a convoluted and onerous tax code, for which they need to hire outside professionals and spend substantial funds. Unfortunately, this was especially the case in the Tax Cuts and Jobs Act of 2017. While the main priority for this legislation included a permanent 40 percent rate cut for the largest, most profitable companies in history, small firms got a complex and temporary 20 percent deduction. While many small companies have undoubtedly received benefits from the 199A deduction, nearly half of the overall benefits goes to the top 1 percent of income earners. My hope is that come 2025, when this provision is scheduled to expire, we can work together to provide genuine tax relief to millions of small businesses without saddling them with another set of complicated and temporary deductions that just end up further enriching a wealthy few.

Meanwhile, Democrats will continue advocating for a tax system that is both fair and fiscally responsible. In just the past three years, Democrats have successfully delivered tax incentives to bring manufacturing back to America, used the Child Tax Credit to cut child poverty in half, and established a 15 percent corporate minimum tax so multinational companies can no longer avoid paying taxes altogether. Through investment in the Inflation Reduction Act, we have worked to modernize the IRS. Taxpayers no longer have to spend hours on hold, and filers are finding it easier to submit electronic forms. Similarly, the new direct file program is making tax submissions simpler than ever for millions of Americans.

Additionally, wealthy tax cheats are being held accountable, and the IRS has already recovered over $500 million in unpaid taxes. So, while Democrats fight for a fairer system that is easier to use, many of my colleagues on the other side have been working, on behalf of tax evaders, to defund the IRS. They have also been proposing more tax cuts for the rich to pay for their cuts to essential programs like Medicare, Social Security, and the Affordable Care Act. Now, as we emerge from a cost of living crisis and wages are once again outpacing inflation, President Trump is proposing a 10 percent tariff on all imports. In my opinion, the contrast could not be any clearer.

With that said, I am encouraged by the bipartisanship shown earlier this year when we passed the Tax Relief for Workers and Families Act, which not only extended the Child Tax Credit for working families but delivered an extension for viable small business provision like full and immediate expensing on investment in machinery and R&D. Unfortunately, those provisions once again face uncertainty as Republican senators play politics and aim to kill anything that could be perceived as a win for President Biden during an election year.

I look forward to working with the Chairman to ensure this legislation gets passed and I look forward to hearing from our witnesses about how best to support small firms using the tax code. I yield back, Mr. Chairman.

Chairman WILLIAMS. Lady yields back, and I will now introduce our witnesses. Our first witness here with us today is Doctor Aaron Hedlund. Dr. Hedlund is an associate professor of economics at the Daniel School of Business at Purdue University located in West Lafayette, Indiana, and the research director of the American First Policy Institute located right here in Washington, DC. Additionally, Dr. Hedlund is a research fellow at the Federal Reserve Bank of St. Louis and chief economic—economist at the Show Me Institute, the only think tank in Missouri dedicated to promoting free markets. Dr. Hedlund was the chief domestic economist and senior advisor at the White House Council of Economic Advisors, where he helped design and execute emergency economic measures during the COVID-19 pandemic. Dr. Hedlund earned his bachelor degree in economics and math from Duke University and his PhD in economics from the University of Pennsylvania. I want to thank you for joining us today, even though you had some Baylor history, right? And we look forward to the conversation ahead.

Okay, our next witness here with us today is Mr. Raymond Huff. Mr. Huff is the president of HJB Convenience Co-op—Corporation located in Lakewood, Colorado. Mr. Huff founded HJB Convenience Corporation in 2004, purchasing the chain of Russell's Convenience Stores, were all located in high-rise office buildings. He is also the principal of Tenderfoot Software which created the software used by Russell's Convenience Stores. Prior to owning his company, Mr. Huff was president of Trans Pacific Stores Limited, where he opted Russell's Convenience Stores—where he operated Russell's Convenience Stores. He currently serves as Vice Chair of the CONXSS Advisory Board. Mr. Huff earned his degree in accounting and business management from Howard University and thank you for joining us here today, Mr. Huff. We look forward to the conversation ahead.

Our next witness today is Chuck Wetherington. Mr. Wetherington is the president of BTE Technologies located in Hanover, Maryland. For over 2 decades, Mr. Wetherington has served as president of BTE Technologies, a small manufacturing firm which produces medical device equipment. Since buying the company in 2001, Mr. Weatherington has brought new products to the market while dealing with ever changing and burdensome regulations. Mr. Wetherington is a board member and former Chair of the Small and Medium Manufacturers Group for the National Association of Manufacturers. He also serves as the Governor's Workforce Development Board for the state of Maryland. Mr. Wetherington holds degrees in engineering from both the University of Illinois Urbana-Champaign and Vanderbilt University. Thank you for joining us here today.

We appreciate and look forward to the conversation ahead and I now recognize the Ranking Member from New York, Ms. Velázquez, to briefly introduce our last witness appearing before us today.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. Our final witness today is Mr. Walt Rowen. Mr. Rowen is the President of Susquehanna Glass Company, a 113-year-old family owned business in Columbia, Pennsylvania. Since 1995 he has been the third-generation family owner of the business and has scaled the company to sell consumer products to many of the nation's best known retailers, employing between 35 and 60 people. Mr. Rowen is also the Co-Chair for Small Business for America's Future, a national coalition of business owners and leaders working to provide small businesses a voice at every level of government. Thank you for being here today, and welcome.

Chairman WILLIAMS. Thank you, and we appreciate all of you being here today. Very much so. Now, before recognizing the witnesses, I would like to remind them that their oral testimony is restricted to 5 minutes in length. We stick with that, okay? If you see the light turn red in front of you, it means your 5 minutes have concluded and you should wrap up your testimony. And what you will hear—you will hear this to just help you remind, okay? And also, you are going to see Members coming in and out, we may have a full house. We may have not so full house. No reflection on you. There is other committees happening so people will come and go and that is normal as we proceed.

So, with that in mind, I now recognize Doctor Hedland for 5-minute opening remarks.

STATEMENTS OF DR. AARON HEDLUND, ASSOCIATE PROFESSOR OF ECONOMICS, PURDUE UNIVERSITY; MR. RAYMOND HUFF, PRESIDENT, HJB CONVENIENCE CORPORATION; MR. CHUCK WETHERINGTON, PRESIDENT, BTE TECHNOLOGIES, LLC.; AND MR. WALTER ROWEN, PRESIDENT OF SUSQUEHANNA GLASS CO., CO-CHAIR OF SMALL BUSINESS FOR AMERICA'S FUTURE

STATEMENT OF DR. AARON HEDLUND, ASSOCIATE PROFESSOR OF ECONOMICS DANIELS SCHOOL OF BUSINESS, PURDUE UNIVERSITY

Mr. HEDLUND. Good morning, Chairman Williams, Ranking Member Velázquez, and Members of the committee. It is truly a privilege to engage with you today on this issue of taxes and not college basketball. My name is Aaron Hedlund. I have been an economics professor for more than a decade, and from 2020 to 2021, I had the privilege to serve as the chief domestic economist and senior advisor at the White House Council of Economic Advisors. The views expressed today are my own.

Before jumping in, I would like to establish some economic context for our discussion. Put simply, America is in the midst of a policy induced cost of living crisis. One way to describe inflation is as too much money chasing too few goods, which means there are two basic ways to end the crisis. The first is to address the too much money part by withdrawing excess demand. The most natural way to do this would be to stop Government overspending. But with the reckless fiscal policy of the past few years, the Federal Reserve has had to step in with its own painful medicine of interest rate hikes to tame demand. The other avenue to reduce inflation

is to address the problem of too few goods by putting in place pro-growth policies that expand supply and create affordable abundance. This recipe has succeeded in the past. The 1980s supply side revolution of simple, low, and fair taxes, coupled with regulatory reform and sound money, put an end to stagflation. The second major success of this approach occurred starting in 2017, following years of failed attempts by its predecessor at a stimulus driven growth strategy.

The Trump administration, along with Congress, took a different approach when they unleashed the beginnings of a second supply side revolution with the Tax Cuts and Jobs Act, or TCJA, as one of its centerpieces. The TCJA had three primary goals. One, make the U.S. competitive on the world stage and repatriate earnings from abroad by reducing what was one of the highest corporate tax rates in the developed world. Second, reverse the stagnation of living standards that families had been facing since 2007 by simplifying taxes through lower marginal rates and doubling the standard deduction. Third, boost small businesses and unleash investment across the country by lowering tax rates, creating the 20 percent Pass-through Deduction, and enacting opportunity zones.

The results were a resounding success as the economy vastly outperformed the official forecast made in 2016. Unemployment and poverty rates hit record lows, income gains reached record highs, and 10 of billions of dollars of net new investment flowed into high poverty communities. The typical American families saw their income jumped by more than $5,000. Contrast that with the $4,000 decline they saw between 2019 and 2022, driven by inflation. In short, TCJA unleashed a blue collar boom with the biggest gains at the bottom.

These accomplishments are notable, but Americans still crave further progress towards taxes that are simple, low, and fair. Simple. Tax complexity costs Americans hundreds of billions of dollars in accounting and compliance headaches, resources that should be going to productive economic activities, not paperwork and bureaucracy. Tax simplification is deregulation. Make the Tax Code simpler and people won't have to contend with so many IRS regulations. Low. One myth about tax cuts is that they deprive the government of needed funds. The truth is that the government does not have a revenue problem, it has a spending problem. Federal receipts as a share of GDP have been stable for decades, and in 2022 they reached their second highest level since world War II. Meanwhile, spending had averaged 20 percent of GDP for 50 years prior to COVID, but is now forecasted to be 23 percent to 24 percent over the next decade and rising from there. Fair. Everybody wants a fair Tax Code, but class warfare mythology about the rich paying less in taxes than everyone else obscures the true sources of unfairness. The truth is that while the top 1 percent earn about 20 percent of total income in the economy, they pay over 40 percent of total taxes. And by the way, corporate CEO's don't pay personal checks when the corporate tax is getting paid. Workers and consumers bear most of that burden.

So what actually makes taxes unfair? It is unfair that the complexity of the Tax Code advantages those with the resources to hire teams of lawyers, accountants, and lobbyists. And it is unfair that

high effective tax rates disproportionately punish people aspiring to climb the economic ladder to enter the middle class and start small businesses. True tax fairness pursues a level playing field, not level incomes. Equality of opportunity, not equality of outcomes. And more private investment, especially in human capital, not less. Extending TCJA should be the foundation upon which to build a Tax Code that is simple, low, and fair. But I encourage Congress to be bold and not stop there.

Thank you for the opportunity to speak with you about this important matter. I look forward to answering your questions.

Chairman WILLIAMS. Thank you, Dr. Hedlund. I now recognize Mr. Huff for his 5-minute opening remarks.

STATEMENT OF RAYMOND HUFF, PRESIDENT, HJB CONVENIENCE CORPORATION

Mr. HUFF. Good morning. Thank you, Mr. Chairman, Ranking Member, and Members of the committee for allowing me to talk to you today about the 199A Tax Deduction. My name is Raymond Huff. I am president of HJB Convenience, an S Corp. I have been in the convenience industry since 1988. Today I operate seven convenience stores and have 16 employees. I am here today on behalf of myself and the National Association of Convenience Stores.

In the United States, the convenience industry includes more than 150,000 stores employing 2.44 million people. It is truly an industry of small businesses. 60 percent of the industry is comprised of single store operators. The industry handles about 165 thousand—65 million transactions each day, a number equivalent to half of the U.S. population. Today, I will focus on Section 199A of the Tax Code, which provides a small pass-through business—provides small pass-through businesses, like mine, a deduction of a taxable income to help bring us into rough parity with C Corporations. From a tax perspective, I will cover the need for tax fairness for small businesses, the benefits of the provision for the economy, and the importance of making 199A permanent.

Initially, the reduction in tax burden for section 199A allowed me to reinvest in my business, expand to open new stores, and hire more employees. It did what it was intended to do. It created a level playing field, and that level playing field is better for my employees and my customers. Then came COVID. My stores are located in commercial office buildings and these employees are now working from h Prior to 2020, I had 23 stores operating in major cities but had to close two-thirds of those stores due to low or no off—office occupancy. The 199A tax deduction and other provisions of the law allowed me to invest in technology that allowed me to keep some of those stores open.

However, other than in 2018 and 2019, I have not made a profit and have not been able to use Section 199A. I am not alone. I have seen many other businesses located near mine, in the central business districts, struggle for years. My main message to you is do not pull the rug out from under me just when I am finally starting to recover. My—many small businesses, including mine, need the 199A tax provision to stick around so we can get healthy again. This prospect of losing the benefits of this tax law is very troubling. If my business is faced with a significant tax increase at the end

of next year, it would set my business back in a way I really can't afford or plan for. A 20 percent or higher increase will require me to slow or cancel my store reopening's hiring plans in the future.

This is just the stimulus that 199A in bonus depreciations were meant to spur. They allow small businesses to invest, expand, hire, and compete with the big boys. The Tax Code should not favor my larger competitors. Without 199A, those large competitors would have a better effective tax rate and would be able to invest those funds, allowing them to have an unfair advantage in the marketplace. That is not right. I can hold my own, but I do need a level playing field, and 199A for the first time leveled that field. That is we should all want that.

Small businesses are the backbone of the U.S. economy. I urge the Members of this committee and all Members of Congress to recognize the urgency of this pending tax increase and take action to allow for proper business planning. The business community needs certainty, especially small businesses like mine. Waiting to resolve this issue would certainly not be as beneficial as extending and making those tax provisions permanent now. Thank you for your time today. I welcome your questions.

Chairman WILLIAMS. Thank you, Mr. Huff. I now recognize Mr. Wetherington for his 5-minute opening remarks.

STATEMENT OF MR. CHUCK WETHERINGTON, PRESIDENT, BTE TECHNOLOGIES, LLC

Mr. WETHERINGTON. Good morning, Chairman Williams, Ranking Member Velázquez, and Members of the committee. My name is Chuck Wetherington. I am president of BTE Technologies, a 40 person medical device manufacturer near Baltimore. I appreciate the opportunity to testify about the importance of pro-growth tax policy for manufacturing in America. This is actually my second time appeared before this committee. My first appearance was almost 6 years ago at a hearing on how trade policy affects small manufacturers. Thank you for having me back.

I am pleased to see that this committee is still focusing on policies, specifically tax policies, that are impacting small manufacturers throughout the country. The most important message I want to leave you with today is that small manufacturers need consistency from Washington. Straightforward, predictable tax laws means I don't have to spend time locked away with my accountants trying to figure out the rules of the road. Instead, I can get out on the shop floor and focus on growing my business and creating quality jobs in our community.

In 2017, Congress was able to take stale, outdated Tax Code and update key provisions to reduce taxes on small manufacturers. Tax reform put the U.S. on a path towards years of consistent, predictable tax policy. The Tax Cuts and Jobs Act was a new wave—drove a new wave of economic activity and industrial expansion. BTE and many of our peers in the industry experienced historic growth in the years between tax reform and the pandemic. But as we saw with COVID, the world in which small manufacturers operate can change in an instant. In 2020 and 2022—21, shutdowns and material shortages for our suppliers had a direct impact on BTE. We

were able to survive and maintain operations, but many weren't so lucky.

Now, tax increases are harming BTE and others in our supply chain. Over the past two years, critical tax incentives that drove growth in our sector have expired. The most damaging tax policy change for BTE has been the new requirements that we amortize our R&D expenses, and about face for more than 70 years of immediate R&D expensing in the U.S. Bringing a medical device to market is extremely risky and takes years and millions of dollars. But now BTE cannot immediately express those costs, reducing the working capital I have available to invest in my business and my employees. This R&D change has delayed projects to redesign and improve BTE's flagship products.

As a result, our growth plans have stalled, delaying expansions that would have allowed BTE to increase our employee headcount by 50 percent. We are feeling the pain from the loss of full expensing and new, stricter interest deductibility standard as well. Capital equipment is now more expensive and we face new barriers to operating our equipment rental business, which enables smaller medical practices to have access to high quality made in America healthcare equipment. BTE and other small manufacturers are all experiencing these tax increases.

Worse, more tax increases are coming our way at the end of next year. Most of BTE's suppliers are pass-through businesses. They will lose the 20 percent Pass-through Deduction at the end of 2025, and their tax rates will go up. Many also face increased estate taxes. Higher taxes in the manufacturing supply chain will directly increase BTE's operating costs. And small businesses like ours will face uncertainty as Congress debates how and if Congress will address the full suite of pro individual, corporate, and international provisions set to expire next year.

Fortunately, the House has taken the first step to stave off this uncertainty. I want to thank every Member of this committee who voted for the Tax Relief for American Families and Workers Act, common sense bipartisan legislation to restore R&D expensing, and other expired 2017 provisions. But a larger tax policy reckoning is looming. Smaller manufacturers are depending on Congress to prevent damaging tax increases before the end of next year. We deserve a Tax Code that promotes innovation and demonstrates to the rest of the world what our values will be for the next decade and beyond. It is urgent that Congress deliver on that promise. Manufacturers like BTE are ready to work with all of you on pro-growth tax policies that allow us to create jobs, innovate, compete globally, and provide a better future for all Americans. Thank you.

Chairman WILLIAMS. Thank you, Mr. Wetherington. And also, now, we want to recognize Mr. Rowen for his 5-minute remarks. Thank you.

STATEMENT OF WALTER ROWEN, PRESIDENT/CO-CHAIR, SUSQUEHANNA GLASS COMPANY/SMALL BUSINESS FOR AMERICA'S FUTURE

Mr. ROWEN. Good morning, Chairman Williams, Ranking Member Velázquez, and Members of the committee. My name is Walt Rowen and I am president of Susquehanna Glass Company in Co-

lumbia, Pennsylvania, and I am Co-Chair of the Small Business for America's Future, a national coalition of small business owners and leaders dedicated to providing the strong voice for small businesses at every level of government. SPAF has long advocated for tax reforms that benefit small businesses and is committed to ensuring that policymakers prioritize the needs of main street, by promoting an economic framework that supports small business owners, their employees, and the communities they serve.

Susquehanna Glass is a family owned business in the glass decorating industry and we have been operating for 114 years. Think about that. We have survived multiple economic upheavals, two world wars, one Great Depression, recently the COVID-19 pandemic, and our business is still here. We currently employ about 35 employees and are proud to provide good jobs and economic activity to our local community since 1910. We are actually 114 years old, not 13. However, our ability to weather these storms has not solely been due to our own efforts. During times of crisis, government programs like the pay—Paycheck Protection Program and the Small Business Administration's EID loans have been crucial lifelines that have allowed us to keep our doors opened. I am sure all of our businesses have recognized that.

That is important because the success of my business like that of all small businesses, is inextricably linked to the success of my community. America's 30 million small businesses are responsible for nearly half of all private sector employment and have been the primary source of job creation for decades. We need investments and policies that create an economic climate that allows small businesses to thrive, which in turn will lead to thriving communities.

However, the current Tax Code, particularly the Tax Cuts and Jobs Act, has not adequately addressed the needs of most small businesses. A recent survey by the Small Business For America's Future shows that the vast majority of small business owners, somewhere around 75 percent of them, said the TCJA did not help them hire, raise salaries, or invest in their businesses. This failure to support small business growth represents a missed opportunity to create jobs, raise wages, and empower entrepreneurs to contribute to the vitality of their communities. To support, truly support small businesses, there must be a comprehensive approach that includes a fair tax system and investments in creating economic opportunities and building a strong workforce.

Merely extending the TCJA provisions beyond 2025, would lock in a tax system that does not invest in small business growth or resilience. Instead, we need to take this opportunity to create and pass tax reform that supports small business success, closes loopholes, and ensures everybody pays the same or fair tax rates. Helpful policies for small business would include a tax cut for small business owners hiring their first employee to stimulate growth, making the first $25,000 in profit for small businesses tax-free, raising the corporate rate to 28 percent, and ensuring that billion dollar corporations pay at least 21 percent of their income in taxes to give lawmakers the means to make impactful economic investments.

And finally, we must simplify tax matters for small business owners—you have heard that from the entire panel—as the current

Tax Code is far too complicated and costly for small businesses to navigate. The need for tax reform is particularly urgent. The U.S. Census Bureau data shows there is a historic surge in new business starts, nearly 16 million since 2021, which is an 85 percent increase in the average compared to 2004 to January 2021. This wave of entrepreneurship represents a tremendous opportunity to build a more robust economy. Smart tax reform and ensuring the taxes rightly owed are collected will open pathways to address the challenges that small businesses and their employees face. Supporting policies that help small businesses will build a prosperous economy.

In conclusion, the current tax system and TCJA have failed small businesses. The expiration of key provisions in that law is an opportunity to take bold action to create a Tax Code that works for main street because investing in small businesses is investing in vibrant, thriving communities where everyone can prosper. Thank you for the opportunity to testify today. I look forward to your questions.

Chairman WILLIAMS. Thank you very much. And we will now move to Member questions under the 5 minute rule. I recognize myself for 5 minutes.

I have been a small business owner in Texas for over 52 years. I am a car dealer and understand the many challenges facing Main Street America. Over the last few years, it has been much harder to find and keep qualified workers, regulations are forcing us to play defense, and inflation has been cutting our margins and making it harder to keep the lights on. Tax policy is the single most important thing we can do to help all entrepreneurs facing these challenges. And when a business owner is able to keep some of their profits, they don't just put in a bank and let it sit there, we spend it. They hire additional workers that creates more taxpayers, or they buy the extra equipment to keep their business growing.

So, Mr. Huff, can you discuss how you were able to utilize the 199A small business deduction to grow your business and, more generally, what you do when you are able to keep more of your hard-earned money?

Mr. HUFF. In my case, I wasn't up on tax law and my CPA in 2019 called and says you invested in equipment, did a self-serve store, and the 199A and the bonus depreciation is available to you. And I said, what does that mean? He says, it means you have more cash. I was shocked. I called that an Easter egg. I did not know that that was going to be the effect doing that, having that extra funds. I then invested in 2019 in additional technology that actually paid to keep my stores open during the COVID times. So, the 199A and the bonus depreciation helped me tremendously in those two years.

Chairman WILLIAMS. Competition is what drives the small business economy and at the end of the day, your customers will tell you if you are doing a good job or not as a business owner, we do not need the government telling us that. And if you offer superior product at a lower price or better customer service, you will keep people coming back and your business will survive, and they will tell others. Unfortunately, we have been, and we have seen increased government mandates that are making it more difficult for

businesses to compete. When a business owner is forced to hire a compliance officer to ensure that they understand the ever-changing web of regulations or an accountant to deal with an audit firm, an overly active IRS, it is time and resources away from their core responsibilities.

So, Mr. Hedlund, can you elaborate on how simplifying the Tax Code helps both American families and businesses thrive?

Mr. HEDLUND. Absolutely. This is a critical task and it is made more critical by the fact that we are in the midst of this cost-of-living crisis, which is entirely artificial. It has been created by reckless policy for the past few years. And I will return to one of my remarks, which is that tax simplification is deregulation. Tax simplification is tax fairness. Fairness is about a level playing field where you don't have to hire teams of accountants and lawyers to do your taxes, but it is a lot simpler. The TCJA helped with that, for one, by doubling the standard deduction. So, prior to TCJA, 50 percent of joint filers itemized their taxes. They had to go through and look at all the receipts and look at what gets deducted. After TCJA, that fell to 12 percent. That benefits small business owners as well. So, this is why we need to start with extending TCJA and go further than that.

Chairman WILLIAMS. Now, I have got a limited amount of time here, but Mr. Wetherington, as you have grown your and developed your company, how has the R&D tax credit contributed to your success? Because, as you said, you are highly regulated and a long way from bringing a product to the shelf. So, how has the tax credits contributed to your success?

Mr. WETHERINGTON. So, the key to me in R&D are my technical people, my engineers, my software developers, and the clinical staff that I have to help in the development of those devices. It is key for me to know that some portion of that expense that I have that is not current revenue yielding, it is future revenue yielding, that I have some return on being able to invest that. R&D is inherently risky. I don't get a win with everything that we go through making. And it is critical that we have that other nations around the world have that. We tend to fall behind in how we have done that, particularly with moving to amortization. Since we have moved to amortization, the rate of growth of R&D in Europe has doubled the rate of growth of R&D in the United States. So, it is critical that we refocus on that.

Chairman WILLIAMS. The Chair now yields his time back and I now recognize the Ranking Member for five minutes of questions.

Ms. VELAZQUEZ. Thank you. Mr. Rowen, your organization's recent survey found that 72 percent of small businesses say that overall, the tax code favors large corporations over small businesses. As we consider tax reform over the next two years, what can we do to restore trust in the system and deliver benefits for true small businesses?

Mr. ROWEN. Thank you for that question. Everybody knows Tax Codes are complicated. They have to be complicated, but they don't have to be overly complicated. I believe that things like depreciation, quick depreciation, immediate depreciation is essential for small businesses to survive. There is no question almost everybody in the business community would say that. What I think I disagree

with is the idea that the Tax Code itself, what the rate of taxation is for a business, is the most important thing to that business. Because the reality is businesses only pay that when they are making profit. So, I, for one, since 2020, haven't made any money. So, the tax rate that I am paying right now doesn't mean a thing to me. Depreciating means a thing to me. Interest rates means things to me, but the tax rate doesn't. So, focusing just on tax rate doesn't make sense to most small businesses because most small businesses actually are not making a lot of money.

Ms. VELAZQUEZ. Thank you. Mr. Rowen, the Inflation Reduction Act provided an additional $70 billion to the IRS for customer service modernization and enforcement. Yes or no, do you believe the IRS is using this funding to put greater scrutiny on small businesses?

Mr. ROWEN. Absolutely no.

Ms. VELAZQUEZ. Thank you. Mr. Huff, yes or no, do you believe the IRS will use additional funds to target small businesses above historical averages?

Mr. WETHERINGTON. I have no evidence to tell you one way or the other.

Ms. VELAZQUEZ. Okay, Mr.——

Mr. HUFF. Yeah, I have no evidence of that either. My CPAs handle the rules and get back to me on what I should and shouldn't be doing.

Ms. VELAZQUEZ. Thank you. Mr. Rowen, as we know, the IRS is using much of their new funds to target people with high income that routinely avoid paying taxes. Mr. Rowen, how does it benefit entrepreneurs when people who cheat on their taxes are held accountable?

Mr. ROWEN. I have reinforced over and over again that in small business community—in small businesses, we live in our communities. There are things in our communities that need to be helped. Something like childcare, something like health insurance, things like overall education. And those are the areas that government policies and programs can address. When I have people who are absent from work because their child is sick, or they simply can't afford childcare, that affects my business, my ability to hire, and my ability to have stable employment and make a profit.

Ms. VELAZQUEZ. I guess you are aware Republicans are once again proposing cutting Affordable Care Act subsidies to pay for more tax cuts for the rich, and so that is something we need to keep in mind.

Mr. ROWEN. That would be catastrophic for my business. We absolutely depend upon the ACA.

Ms. VELAZQUEZ. Mr. Rowen, the current leader of the Republican Party, former President Trump, is proposing an across the board 10 percent tariff on all imported goods. Yes or no, would you raise prices for consumers if this tariff was implemented?

Mr. ROWEN. Yes. We live in a global economy. Half of the products that I am decorating and selling are produced here in the United States. We would like to make that more, but the reality is we have to buy products overseas. Every product we buy from overseas that has a 10 percent tariff will be more expensive from

me to my customer, and therefore to the ultimate consumer. So, it is an inflationary policy.

Ms. VELÁZQUEZ. Thank you. Mr. Chairman, I yield back.

Chairman WILLIAMS. Lady yields back. I now recognize Representative Van Duyne from the great state of Texas for five minutes.

Ms. VAN DUYNE. Thank you very much, Mr. Chairman, for holding this important hearing. There is no doubt that the TCJA helped supercharge the economy and provided much needed relief to small businesses. The economic success of the 2017 tax reforms was undeniable. Small business optimism peaked, and investments in research and development hit record highs. Small businesses finally felt untangled from an impressive Tax Code, and it is great to hear these stories from our witnesses today. In 2025, Congress will be facing an important choice. Continue the success of the TCJA, looking at new ways to be competitive, such as continuing the work that we have done, in my subcommittee, by finding new ways for small businesses to access capital or go back to taxing job creators at record levels. If we do not take action, the small business deductions will expire, and small businesses will be faced with a tax rate of 43 percent, compared to the 20 that they now pay. And don't be fooled, in the absences of higher taxes, Democrats are finding new ways to burden small businesses across the country. Not only are agencies such as the SBA creating regulatory burdens, but every day, the IRS under President Biden is growing and expanding. It is expanding its reach into American wallets and small business ledgers. Lastly, we also have an opportunity to get things right the first time, with new opportunities when it comes to digital assets in cryptocurrency. Mr. Huff, I am curious. You have heard that some of the criticism on the TCJA was just a bailout for wealthy corporations and one percenters. You have talked about how it has benefited you. Do you feel like your business falls into either one of those two categories?

Mr. HUFF. Which were the categories again?

Ms. VAN DUYNE. Well, that you are a wealthy corporation or a wealthy one-percenter.

Mr. HUFF. No, I am definitely not either. I am a small business owner who goes to work every day trying to make a dollar and pay my employees and grow my business. I would like one day to be wealthy in those things.

Ms. VAN DUYNE. But it is great to hear that we actually are hearing from small business owners, mom-and-pop shops and others who have actually been able to take advantage of the TCJA. Mr. Hedlund, I am going to ask you. President Biden's budget proposal contains many new tax provisions. Does any particular proposal stick out as being the worst for small business?

Mr. HEDLUND. There is a lot of bad options to pick from. It is hard to pick one of them. But I say the worst thing we could do for the economy right now is to hike taxes when people have already been paying the inflation tax and the regulatory tax. This would not—that would make the cost of living crisis worse, make our growth worse, and not be good for the economy.

Ms. VAN DUYNE. So, you have heard President Biden repeatedly state that he is not going to tax anyone making less than $400,000. Is that accurate?

Mr. HEDLUND. Well, that promise has already been broken. As I mentioned, the inflation tax. The typical American family has seen their real income fall by $4,000 because of inflation, and that will just be compounded by the expiration of thousands of dollars' worth of tax cuts to them if that were to be allowed to happen.

Ms. VAN DUYNE. I appreciate that. Mr. Wetherington, what would you do differently if the R&D provisions of the Tax Code had not changed?

Mr. WETHERINGTON. So, for me, I would be hiring more engineers, more software developers. I would have a higher level of certainty over what the Codes were and what my expenses would be and what my liabilities would be associated with doing that development. It would yield me getting to new products faster, which helped me not only in selling products to the United States, but I export to over 40 countries around the world, including China. And it is important for us to bring out, to beat other competitors around the world who also make medical devices by being innovative and being on the leading edge. R&D tax credits is a key tool in us being able to do that.

Ms. VAN DUYNE. Tell me also, how would higher taxes impact, because you talked about how we are competing with other, with other countries and other businesses outside of America. Can you tell me how higher taxes impact manufacturing?

Mr. WETHERINGTON. So, the vast majority of small and medium manufacturers are actually suppliers to larger employers. So, even though we may be not necessarily main street, but small industrial parks around the United States, that higher tax rate has a ripple down, a trickle-down effect. And we have seen a real renaissance in reshoring of manufacturing in the United States. And I think the Tax Code has been a big piece of that. Not only the supply chain problems for the pandemic, but it was already starting before then, in 2018 and 2019, because of the improved Tax Code.

Ms. VAN DUYNE. Outside the Tax Code, can you talk about how the regulations have been hurting your business? And we have got 10 seconds.

Mr. WETHERINGTON. My regulatory expenses have gone up over 460 percent in the last eight years and not done anything to make the products better or safer.

Ms. VAN DUYNE. Wow, that is impactful. Thank you very much for your testimony.

Mr. WETHERINGTON. You are welcome.

Ms. VAN DUYNE. I yield back.

Chairman WILLIAMS. Lady yields back. And now I recognize Representative Scholten from the great state of Michigan for five minutes.

Ms. SCHOLTEN. Thank you so much, sir. Thank you to our witnesses for being here today. What an incredibly important conversation. Small businesses make up over 99 percent of private sector employers, employing nearly half of the workforce and creating two thirds of all new jobs. In my home state of Michigan, nearly 1 million, over 900,000 small businesses employ 1.9 million people.

To that end, it is incumbent on Congress and us here in this committee to help create a tax system that is both easy for our small businesses to use, and one that promotes fairness.

This question is for Mr. Rowen. In your experience navigating our tax system at a small business for nearly 50 years, what programs or policies have made that experience easier? And can you speak to any changes that you would like to see specifically?

Mr. ROWEN. Boy, I am not quite sure how to respond to easier. We are a large enough company that we employ an outside accountant. And he is bringing all the complexities of the tax laws to us. We don't have to employ. We have bookkeepers that do our books. But the Tax Codes. But there have been. I mean, they are just crazy.

Ms. SCHOLTEN. And I am not meaning to interrupt, none is a perfectly appropriate answer.

Mr. ROWEN. None.

Ms. SCHOLTEN. If that is your genuine answer.

Mr. ROWEN. Yes, that is my answer.

Ms. SCHOLTEN. What can we do?

Mr. ROWEN. So, one, and it has been said by everybody today, let us create a tax system that everybody believes is fair, is consistent, and stays stable. Because every year, if we, every two or three years, we change, that throws all of us into chaos.

Ms. SCHOLTEN. Absolutely. And you just said it yourself, you hire an outside accountant. Right?

Mr. ROWEN. Yes.

Ms. SCHOLTEN. Not many small businesses have that luxury, right? This Congress, we have heard from a lot of small businesses about labor shortages and supply chain issues impacting their ability to grow and thrive. I hear about that back home in West Michigan as the number one concern. Maybe number two, only to access to capital. Mr. Rowen, again, as we continue to bounce back as a country, can you describe how you think we could potentially use the Tax Code as a leverage to alleviate the workforce shortages that small businesses have been struggling with in recent years? What changes would you like to see? What avenues are already there? And how can we use this to our advantage?

Mr. ROWEN. So, I think some of the things we have talked about today that actually are still in the TCJA, I would absolutely encouraged to stay in. So, things like having the—being able to write off quickly, things like—but the two things that are the most important things for me with employees is healthcare and childcare.

Ms. SCHOLTEN. Yeah.

Mr. ROWEN. If we could have better healthcare and childcare programs, that would make an enormous difference for the vast majority of small businesses that I am familiar with.

Ms. SCHOLTEN. Heard. Thank you so much. I yield back.

Chairman WILLIAMS. Lady yields back. I now recognize representative Bean from the great state of Florida for five minutes.

Mr. BEAN. Mr. Chairman. Thank you, Mr. Chairman, a very good morning to you. Good morning, Small Business Committee. To our witnesses, glad to have you here. Welcome to your nation's capital. I have only been in Congress 15 months, a little over a year,

and I have learned that Bidenomics is taking its toll on main streets in northeast Florida, where I represent, and really all across America. In fact, with the exception of Joe Biden, I don't believe there is one single American who objectively believes that our nation is headed in the right direction.

To all of you small business owners that have been struggling with Bidenomics, I want to tell you something, there is a light at the end of a tunnel. Now many small business owners will say, is it a train? It is not a train. It is the potential tax relief in the Tax Relief for American Families and Workers Act. The House has already passed it, a bill that is both family friendly and business friendly. And we are poised to deliver big, momentous change in Washington and all across America. The provisions of this bill have a track record of increasing wages, providing more job opportunities, and helping American businesses become more competitive, more productive, more innovative, and in turn, generating a tremendous economic boom in their communities, whether you are in research and development or in the convenience store business. As Americans continue to suffer under back-breaking inflation with an uncertain economic future, I believe the bill, the Tax Relief bill, the Tax Relief for American Families and Workers Act, will provide much relief, opportunity, and certainty.

So, let us get to the questions. In 2017, Congress passed and President Trump signed into law the Tax Cuts and Jobs Act, which was the first major reform in the U.S. Tax Code since Ronald Reagan did it in 1986. Sweeping reform updated the Tax Code to benefit individuals and companies of all sizes. This tax cuts was incredibly successful and provided much needed relief for Americans. Unfortunately, the bill passed under reconciliation, which bypasses the 60-vote threshold. And now the program was temporary. We are soon to see all of that great, the great work expire.

So, my question, Dr. Hedlund, if Congress allows the provisions of the job—Tax Cuts and Jobs Act to expire, what will be the impact on American businesses?

Mr. HEDLUND. That is a great question. And it would be a very damaging impact because we saw what positive progress that law provided. $5,000-plus in income gains for the typical family with bigger gains at the bottom, people with less formal education, people with non-managerial jobs, people at the lower end of the income distribution had faster gains than at the top. So, if we let the TCJA expire, we can expect to see less investment, lower wages and lower overall prosperity.

Mr. BEAN. Very good. Thank you very much. And to Mr. Wetherington, can we agree America has always been on the forefront, cutting edge of inventing things, making the world better, making quality of life for everybody? And that comes with research and development. Is it true that our Tax Code now is, is punishing people who do research and development? And if we don't make changes, we are going to see America fall further behind the rest of the world and research? What do you say to that Mr. Wetherington?

Mr. WETHERINGTON. That is absolutely true. Manufacturers are inherently problem solvers. But we want to focus our problem solving on things about what we are manufacturing. We don't want

to focus our problem solving on a new Tax Code or on changes. So, it is predictability and consistency that we really need out of Washington; allows us to focus on the job we need to do not only in creating new products through R&D, but also on the daily building, making, shipping, supporting products that we make to help people get better in our healthcare system.

Mr. BEAN. Ten-four. So, we have got to act or we are going to go further behind the rest of the world?

Mr. WETHERINGTON. The priority is urgent.

Mr. BEAN. Amen. No. Thank you for saying that. Mr. Huff, I just want to say thank you and congratulations to you. Seven stores. I know your family is proud. Sixteen people are getting a paycheck. They are putting dinner on their table because of you. Is crime a problem at convenience stores right now?

Mr. HUFF. Not in my stores, but generally crime is, I think, coming down. But I am not sure about that. The—if I could speak to——

Mr. BEAN. Hold on one second. My final question, we are going to flip it back to you.

Mr. HUFF. Okay.

Mr. BEAN. The Inflation Reduction Act, Dr. Hedlund, has been poised even at this Committee how great it is for small business. Isn't it true that spending $1.3 trillion under the Inflation Reduction Act has greatly enhanced inflation in these United States of America?

Mr. HEDLUND. Yes. It should be called the Inflation Creation Act.

Mr. BEAN. Thank you very much Mr. Huff, we will get back to you next time. Thank you all for coming forward. I yield back, Mr. Chairman.

Chairman WILLIAMS. Gentleman yields back. I now recognize Representative Chu from the great state of California for five minutes.

Ms. CHU. Mr. Rowen, I would like to ask you a question. I also serve on the Ways and Means Committee, which has jurisdiction over the Tax Code. And I so appreciate your small business perspective on how a Tax Code geared towards corporations and the wealthy does not trickle down to small businesses and workers. In fact, that is why Democrats have fought to end trickle down policies and instead invest directly in workers and small businesses. And that is why we continue to advocate for expanding their Earned Income Tax Credit, or EITC, and the Child Tax Credit. These are two of the most powerful tools at our disposal for not only reducing poverty, but also helping more Americans enter the workforce. Unfortunately, Republicans' Tax Cuts and Jobs Act did nothing to strengthen the EITC. And Republicans in the Senate are refusing to consider even a modest improvement to the Child Tax Credit that the House did pass on a bipartisan basis.

So, can you talk about why it is important that the Tax Code support workers and families instead of just corporations and the wealthy? What benefits might small business owners and prospective entrepreneurs experience if Democrats EITC and CTC expansions under the American Rescue Plan are made permanent?

Mr. ROWEN. So, in the small business world, believe it or not, taxing is not one of the most important issues that we deal with day to day. It is employees, it is consumers, it is how do we get our products out. But more than anything else, primarily as a manufacturer, we have to have employees. And if we don't have consistent, dependable employees, we don't have a business. And if we have—I am an entry level, low skilled—I have a lot of those jobs. I am hiring a lot of young, new family members. And hey, guess what? They have kids. And when they have kids and their kids don't, they don't have childcare, they are not going to be dependable employees. So, those kinds of programs, health insurance is another one. If I have an employee that is going to get sick and doesn't have health insurance, they are not going to go to the doctors. And the consistency, dependability of our employees is something that is vital to us. Those programs are necessary.

Ms. CHU. Thank you for that thoughtful answer. I would like to follow up with talking about the impact of the Tax Cuts and Jobs Act on small business. As a Member of the House Ways and Means Committee, I was there in 2017 when Republicans pushed through their rushed partisan Tax Cuts and Jobs Act, and I saw firsthand that the goal was simple, to lower taxes for the wealthiest individuals and the largest corporations. That is why the TCJA made the corporate tax cut permanent, while the provisions for small businesses and individuals were made only temporary. But even though Republicans said that some of these temporary provisions were targeted at main street, like the 20 percent qualified business income deduction for pass-throughs, also known as the Section 199A deduction, we know that the majority of the benefits have gone to the wealthiest businesses. In fact, the Joint Committee on Taxation estimates that in 2024, 61 percent of that benefit will go towards the top 1 percent; and, businesses in the bottom two-thirds of income will only get 4 percent of the benefit. That is in part because the TCJA created a number of complex rules that made it harder for small businesses to navigate the Tax Code and actually take advantage of these potential deductions.

So, Mr. Rowen, you indicated in your testimony that we need meaningful tax reform to help small businesses, but that simply extending these expiring TCJA provisions is not the answer. Can you expand upon some of the challenges that small businesses faced in navigating the TCJA's provisions? How would small business owners, and especially the smallest and most underserved, stand to benefit if Congress finally moves past the TCJA and instead pursues a fairer tax system?

Mr. ROWEN. So, we can talk about what fair means. And I think that we believe, as small business owners, that if everybody is doing the same thing and paying the same amounts, that is fair. The fact is that the corporate tax rate had been at between 30—the top rate had been around 35 percent to 39 percent, and a 40 percent reduction took it to 20 percent, 21 percent. The small business community only got a 20 percent deduction as a pass-through. And you just look at those numbers and any economist and any lay person can be, can understand that that wasn't fair. And the fact that one was permanent, and one——

Chairman WILLIAMS. The gentlelady's time is up.

Mr. ROWEN.—was not permanent was also not fair.

Chairman WILLIAMS. You yield back?

Ms. CHU. Thank you. I yield back.

Chairman WILLIAMS. Thank you. I now recognize Mr. Meuser from a state that is represented well here today, the great state of Pennsylvania, for five minutes.

Mr. MEUSER. Yeah. Thank you Mr. Chairman, very much. Thank you all. Great discussion. Really important. A lot of different ideas, but you can have a lot of different ideas, but facts are facts, I guess, right. When the Tax Cut and Jobs Act went into effect, yes, the corporate tax rate came down. You know, for some reason, we want to beat up on, you know, small businesses that, you know, become large businesses. That would happen. All large businesses were once small businesses, and they grow. As Mr. Huff said, that is the whole idea. When the corporate tax rate came down to 21 percent, the whole world got far more competitive than the United States of America. That is why right afterwards we saw almost a trillion dollars in repatriation come back. And by the way, many small businesses have large businesses as their, either their suppliers or their customers. So, it all needed to be reviewed. Now we are the Small Business Committee, so that is in fact where we want to focus.

So, let me just ask you this, Mr. Wetherington, and we had some past business similarities. I was in the home medical equipment business. So, when you receive your 20 percent reduction and you had your 100 percent R&D deduction and carried interest could be written down, when you were showing more revenues, in the end, more net income, what did you do with it?

Mr. WETHERINGTON. It went right back into business.

Mr. MEUSER. Of course. I would have bet and knew exactly what you were going to say; went right into the business. You hired, you invested, you grew, you became stronger, more built to last. Okay? That is where employment comes from. From a business that is figuring out how to not only sustain itself but also have some level of profitability. And that is, by all means, what the TCJA did. I mean, there is no question about it. You know, the 20 percent reduction, the R&D reduction. Now the idea is it was a bipartisan vote here in the House, but that this is going to be, you know, removed. I mean, it is not being taken up in the Senate and President Biden showing no interest in and carrying it on. And they are not carrying it on because the messaging continues to be that this did nothing but help billionaires, right, and the superrich. And yet I go to more chamber meetings as a former small business person that grew into a somewhat larger business and I never have one person out of a group of 150 say to me, boy, that Tax Cut and Jobs Act really was detrimental to me, I am sorry it happened. No. They are saying bring back the R&D, bring back the bonus depreciation, keep our 199A in effect.

Mr. Huff, let me ask you something. What if after COVID and everything else, you know, when you are speaking of the 20 percent reduction: A, what if that never occurred and B, how devastating is going to be if that gets eliminated?

Mr. HUFF. Well, I can testify today that for the first time the 199A actually brought funds to my corporation that I was able to

invest. And I believe that if I didn't have that, I would not be here sitting here today as a business person. It gave enough funds that I was able to invest in technology and open up self-serve stores that are still currently operating.

Mr. MEUSER. Yeah, great, thanks. Mr. Wetherington. R&D tax credit. Very important. I was looking at your products. Of course, a lot goes into that. Design engineers, all types of engineers, electronic EEs. That gets reduced or even now with the, with the 20 percent over a five-year period. How has that affected your business, your profitability, your hiring, your growth, and your R&D investment?

Mr. WETHERINGTON. Well, as I stated in my testimony, this is slowing us down from bringing out major redesigns of our two flagship products that represent 80 percent of our product revenue. Our expectation is that we are going to grow by 50 percent once those launch, but we continue to have to push those out because of the inability to cover the expenses without the assuredness of having the R&D tax credit. It is back to predictability and consistency in what the Code is.

Mr. MEUSER. Absolutely. Amen to that. Mr. Hedlund, you in your work and you working on the TCJA, just related to inflation. When the former administration, Trump Administration was talking about tariffs and, and getting to zero percent tariffs and reciprocal tariffs, was there inflation back in the Trump days because of that?

Mr. HEDLUND. Leaving 2020, inflation was under two percent. It wasn't until 2022 that we got to 40-year high inflation.

Mr. MEUSER. Thank you very much. I yield back, Mr. Chairman.

Chairman WILLIAMS. The gentleman yields back. I now recognize Representative Landsman from the great state of Ohio for five minutes.

Mr. LANDSMAN. Thank you, Mr. Chair, and thank you all for being here and your testimony. The bill that we just passed was a bipartisan bill, and it put back on the books and or expanded a number of things that I think we all in this room would agree were hugely important. And the Senate should pass what we already passed. The President is very supportive of this, of course, is the R&D piece of all of this, which we have been pushing for in this committee in a bipartisan way. And thanks to the Ways and Means folks, for getting it done and getting it to the floor.

Being able to deduct the interest payments when interest payments are so high right now, it has been such a burden for small businesses, families in general. So, being able to do that was really important. The Child Tax Credit, hugely important to help families pay all their bills. And oftentimes those dollars end up back with our small businesses. So, it is really good that they are in the pockets of our families as opposed to up here or somewhere else. It also included the LIHTC expansion and making sure that this tool for helping to build more affordable housing. So, these are all really smart bipartisan tax endeavors, again, passed here and then went over to the Senate. Hopefully they will pass it.

The issue, and the question for me is, we know what bipartisan tax reform looks like. We just passed it. The challenge is that al-

most all Americans know that the tax system is rigged for the super wealthy, right, that especially because of the Trump tax giveaways to millionaires and billionaires and these big corporations. If all of the companies and millionaires and billionaires, the super wealthy, were to pay all their taxes on all their income and wealth, wouldn't we have the money to invest in healthcare and childcare, which are at the core of successful small businesses? Wouldn't we have the resources to invest in additional tax relief for small businesses?

So I am curious. I will start with you, Mr. Rowen, your thoughts on that. I mean, it just seems that fixing the tax system is, for small businesses and families, is the next big moment of truth for this economy and for the country, for this Congress. And it does seem pretty straightforward, and the American people are clear, make those who are super wealthy pay all their taxes on all their income and wealth, and then put us in a position where we can invest in childcare and healthcare and more tax relief for small businesses.

Mr. ROWEN. We keep going back to bipartisan tax reform and, gosh, all of us would like that to happen. The question becomes what is fair. And again, what I say is the small business community that we represent is not coming today to say we don't want the changes that the TCJA gave to the small business community in deductions in the pass through 20 percent. It is not like we don't want those, those were helpful, absolutely. We all accept that.

Mr. LANDSMAN. Exactly.

Mr. ROWEN. But the bottom line is that the small business community is basically being taxed at about a 28 percent rate. And we also know that the corporations are being taxed at the 21 percent rate.

Mr. LANDSMAN. If, if, if.

Mr. ROWEN. If. And the average corporate tax rate is closer to 10 percent.

Mr. LANDSMAN. Correct.

Mr. ROWEN. So, that is not, in the American eye, fair. We know that tax policy can incentivize business development. We know that. We just have to figure out how to do it. And things—small business people recognize that childcare, health insurance, making our communities stronger, government policies that do that do help small businesses, and we grow when those programs are working.

Mr. LANDSMAN. Anyone else?

Mr. WETHERINGTON. The TCJA wasn't perfect, but it did create a manufacturing boom and it created a beginning of onshoring that only continued once we started into the pandemic and having the supply chain issues. I think it is still very important that we make that permanent and we stop the additional provisions from expiring in 2025.

Mr. LANDSMAN. Thank you. And I yield back.

Chairman WILLIAMS. The gentleman yields back. I now recognize Representative Alford from the great state of Missouri for 5 minutes.

Mr. ALFORD. Thank you, Mr. Chair. Good to see you back. And thank you to our witnesses for being here. I know it is a little bit of a sacrifice to come here away from your businesses, but we

thank you for the investment because I think this is a very important hearing.

I want to start with four simple truths today. Number one, cutting taxes is good for American taxpayers and their businesses. Number two, President Biden's new budget reveals his intention to tax Americans families into oblivion. Fact number three, complying with President Biden's war on small business, including over regulation, is a tax within itself. And number four, the IRS is now targeting more small businesses as it looks to claw away money to fund the radical agenda of this administration. My message to President Biden is, sir, end your war on small businesses now.

The Federal Tax Code currently sits at over 75,000 pages, including guidance from the IRS. For context, if you were to stack 75 pages up, take a look at the ceiling right now, guys, this is about a 16-foot ceiling. The Federal Tax Code and all the guidance that goes along with it would be twice the height of this ceiling. That is crazy.

Next week, hundreds of millions of Americans will be required to comply with all that paper, 32 feet high worth of regulations, and contend with the President's new 87,000 IRS agents. He hired those new IRS agents for a reason: to execute the extreme taxation policy laid out in his 2025 budget. The President's budget includes a staggering $4.9 trillion in new taxes, alongside allowing $2 trillion in tax savings from President Trump's Tax Cut and Jobs Act to expire. Allowing these pro-growth tax policies to expire and increasing taxes will not only further hurt the competitiveness of your small businesses and all small businesses in America, it will crush them, the jobs they provide, the communities they serve.

Mr. Huff, one of the most important pieces of the TCJA was a small business deduction. It allowed a 20 percent deduction for pass-through business owners, allowing them to keep more of their own money and invest it in their businesses and in their employees. It has led to an estimated $66 billion in tax savings for small entities. Mr. Huff, what will happen to your small business if the small business deduction expires next year, sir?

Mr. HUFF. I will not be able to invest in my planned reopening of my stores. I have stores that are actually mothballed and planned to reopen as the office buildings fill up.

And just one other thing I would like to—the 199A was the first time that I actually felt that the Tax Code affected me as a small business person. I am grateful to have it.

Mr. ALFORD. These savings that you are realizing under the tax cuts now, you are not taking fancy trips to Tahiti or anything like that, are you, with the money?

Mr. HUFF. Actually, I am going to go to Tahiti, but not because of the Tax Code.

Mr. ALFORD. You are investing this in your business and the people who work for you.

Mr. HUFF. That is absolutely correct. We reinvest in our business. And I actually have to do that because I would like to get back to 23 stores across the United States.

Mr. ALFORD. Mr. Hedlund, our farmers are the backbone of our nation, working sun up to sundown. In Missouri, we had, 5 years ago, 95,000 farms in Missouri. Now we are down to 87,000. Our

food security is our national security. We are losing 1,000 farms a month in America. And a key policy keeping these businesses, these family farms going is the stepped up basis which allows a son or daughter to inherit their family farm without paying the devastating tax bill.

President Biden wants to do away with this in his budget, and it is going to hit two-thirds adversely, two-thirds of the family farms. What impact will that have on our ag industry, do you think?

Mr. HEDLUND. It would be a very damaging impact. We have seen overall prices go up by 20 percent and food prices have gone up by more than that. And that is just part of a trend. This administration has also talked about taxing unrealized gains, which would be similarly devastating to the economy.

Mr. ALFORD. Well, I appreciate your answers. Mr. Huff, have a good time in Tahiti. I appreciate—I wish I could go with you, but I just got back from spending a week in Israel, and I am telling you what, we need to pray for those people in Israel and support them.

Thank you so much. Mr. Chair, I yield back.

Chairman WILLIAMS. The gentlemen yields back. I now recognize Representative Thanedar from the great state of Michigan for 5 minutes.

Mr. THANEDAR. Thank you, Mr. Chair. And I have a couple of questions for Mr. Rowen.

You know, when I ran a small technology business in Michigan, buying equipment was very critical, keeping up with the new technology so that I can provide better service to my customers, create more jobs. And so often I used my profits, so to speak, to buy equipment and invest in my own business, so I can grow, grow the business. And at times, you know, I had some tax benefits that helped me.

Now, we have a bill, I am sure you are familiar, that is being with discussed in the U.S. Senate. And in terms of providing some tax benefits, especially able to write off entirely the purchase of equipment. What would you advise the senators to do on this particular bill?

Mr. ROWEN. There is no question in my mind, it is the experience I have had with my business, that every time I can expense something like a piece of equipment in the year that I purchase it, it helps my business. It is an absolutely vital component of what I think should be a fair tax policy and tax reform, so it should be included in tax reform.

Mr. THANEDAR. All right. The 199A deduction benefits many small businesses that operate as pass-through, but 50 percent of the benefits go to the top 1 percent. What can we do to cater benefits more towards the average small business owner who makes closer to $70,000 a year?

Mr. ROWEN. So, one of our proposals is to take the first $25,000 worth of income on a business and make it tax free, give small business owners who begin to hire employees a credit for new hires, things like that. So, when you are down at the level where all entrepreneurs start, at the bottom and build up, give better tax breaks and incentives that way.

Mr. THANEDAR. All right. Finally, you know, what specific policies you recommend that would help the small businesses? Often when we have tax breaks, tax incentives planned, we see a lot of that benefit go to the top 1 percent who really don't need those incentives. It is the small businesses which are struggling, the mama-papa businesses, small businesses trying to grow. You know, they can benefit more. How can we design policies that benefit more of the lower end, smaller businesses and not so much of it goes to the top 1 percent?

Mr. ROWEN. I believe, our organization believes that government is not necessarily always the bad, evil part, and taxing is how we fund our government. We have just experienced 4 years', 5 years' worth of a pandemic that would have crushed most businesses. My business would not be here today, I would bet you these two gentlemen sitting next to me, their businesses very possibly would not be sitting here today, be in business, if we didn't have the protections like the PPP funding and the Small Business Administration EIDL loans. Those are the things that backstop the American economy and that is what America needs to be. We need to strengthen that.

Mr. THANEDAR. Thank you, Mr. Rowen. And Mr. Chair, I yield back.

Chairman WILLIAMS. The gentlemen yields back. I now recognize Representative LaLota from the great state of New York for 5 minutes.

Mr. LALOTA. Thank you, Chairman, for your leadership and for getting us together to today to hear about the challenges that small businesses face regarding our Tax Code and the uncertainty in it. I want to thank our witnesses for being here today.

I want to spend my 5 minutes today addressing an issue that is paramount to my Long Island constituents, and that is the state and local tax deduction, otherwise known as SALT. Long Island is already one of the most expensive places in the country to live due to incredibly high state and local taxes. Specifically, New York State has the dubious distinction of having the highest effective income, sales, and property tax rates in the country. It is not even close how bad we are in our state.

Now, that is a problem mostly created by Albany politicians and nobody in this town, thankfully. Nevertheless, the complex Federal Tax Code presents challenges to small businesses and individuals, like many of my constituents. And to help provide relief to that problem, many of my colleagues and I are working to increase or eliminate the SALT deduction cap to help support our constituents.

One of the first bills I introduced in Congress was my SALT Fairness and Reduction Act, which would increase from $10,000 for individuals to $60,000 for individuals, $120,000 for married couples, and would also index that for inflation. This, many think, is commonsense legislation that provides tax relief to those who need it, specifically small businesses and middle class families, who are having to cut costs every day.

I made a promise to my constituents that I wouldn't support any tax package here in the House without a reasonable SALT fix. And since day one, I have made that clear to every one of my colleagues. Unfortunately, earlier on in this Congress, the Wyden-Smith tax

package did not have any reasonable fix for SALT, and I was forced to vote no on that package.

I am not giving up, however. Many of my New York Republican colleagues and I then fought tooth and nail to ensure that a vote on a SALT increase got to the floor. We proudly introduced the SALT Marriage Penalty Elimination Act that would remove the marriage penalty and raise the SALT deduction cap to $20,000 for joint filers who have an adjusted gross income of $500,000 or less.

Sadly, this dysfunctional town, every single House Democrat who previously said they were very much in favor of an increase in the SALT deduction, and specifically 14 New York House Democrats, voted against that and blocked that bill from even coming to the floor. It was pro family, pro worker, pro American legislation and the dysfunction of this town, the partisanship of this town prevented that from moving forward.

This leads me to my first question. Mr. Hedlund, I see you are from Purdue. Sorry about the game the other night. A vast majority—you guys finished second in the world. That is very good.

Mr. HEDLUND. A lot better than last year.

Mr. LALOTA. Yes, sir. A vast majority, I understand, of small businesses are pass-through entities, meaning income is reported on from the business owner on their individual taxes and is taxed under the individual income tax. Is that correct?

Mr. HEDLUND. That is correct.

Mr. LALOTA. This means the limitation of the personal income tax code, like the SALT cap, directly negatively impacts the business. Is that correct?

Mr. HEDLUND. They are affected by that provision.

Mr. LALOTA. And it is a negative impact. They get to deduct less?

Mr. HEDLUND. They get to deduct less.

Mr. LALOTA. Which means they have to pay more?

Mr. HEDLUND. Sure.

Mr. LALOTA. And does anybody want to pay more?

Mr. HEDLUND. No one I have encountered.

Mr. LALOTA. We agree on that. Would you agree, moving on, would you agree that a double tax, where the federal government and then later on the state and local governments tax the same income, that a double tax is unfair?

Mr. HEDLUND. So, I would take a little bit of a different view there. I would say if there is a federal taxpayer living in Texas and one living in New York and they have the same income, that the one in Texas should not have to pay a higher federal tax because of the bad decisions that New York government is making.

Mr. LALOTA. Great point. I have heard that from some of my colleagues. Now, what would you say about return on investment? If you are going to analyze, in your words, that a Texas taxpayer, God bless Texas, shouldn't have to subsidize the largesse of Albany politicians, I generally agree with that concept. But what would you say if the analysis then said that this town sends more back to Texas and some other states than they send back to New York based upon the revenue it collects from those? Specifically, New York State is a donor state, meaning that for every dollar a New York taxpayer sends to the federal government, we get a mere 85

cents back. In many of those same states who claim they are subsidizing my state's largesse, they are getting $1.25, $1.50, and $2. Would you say that is unfair, sir?

Mr. HEDLUND. I would say that the money going back to a lot of these states, no one is really feeling the benefits of it. Government is way too big. So, I am 100 percent on board with you about we need to reduce the tax burden on everybody.

Mr. LALOTA. Great. Let's talk about the marriage penalty real quick. So, certain parts of the Tax Code disincentivize marriage, and specifically with respect to the most recent adjustment in the SALT code, the limitation is $10,000 regardless if you are an individual or you are married. So, one person gets to deduct $10,000 from their taxes, but two people who happen to be married get to deduct the same 10,000, not 20,000. Is that fair, sir?

Mr. HEDLUND. I am definitely against marriage penalties.

Mr. LALOTA. Great. With that, I yield back, Mr. Chairman.

Chairman WILLIAMS. The gentlemen yields back. I now recognize Representative McGarvey from the great state of Kentucky for 5 minutes.

Mr. MCGARVEY. Thank you, Mr. Chairman. Appreciate this hearing today, especially given that Monday, let's not forget, is Tax Day. So this is everybody's friendly reminder it is coming, whether we want to admit it or not.

Mr. Wetherington, I appreciate your statement that the Tax Code must be simple, consistent, and must support job creation here in America. I couldn't agree more. We need a Tax Code that is accessible to every American. And I think everyone needs to pay their fair share. It is not viable and I think it is certainly not fair that the top 10 percent of earners are oftentimes taxed at far less than teachers and firefighters and people below.

And let's look at what the Tax Code and what has happened recently. Trump's tax plan was a massive windfall for large multinational corporations. By implementing a flat 21 percent tax rate, President Trump gave some of the largest, most profitable corporations up to a 40 percent break on their taxes. But this is the deal. We are in the Small Business Committee. They did this while subjecting the smaller businesses and C corporations, who were previously taxed at 15 percent, a tax increase. So that 21 percent tax rate that they imposed, a flat tax, it lowered it for the biggest corporations, it raised it for many small businesses.

I have got twins at home, and so I say this all the time, it can be fair, right? It can be equal without being fair. And that is what has happened. They made the tax rate equal, but it is not fair to our small businesses and our entrepreneurs who are trying to grow their businesses.

It is not hard to see why, right? When signing his corporate tax giveaway into law, President Trump said, "Corporations are literally going wild over this." You heard that quote correctly. Not people are going wild over this, not main street is going wild over this. Our largest corporations are going wild over this. And unfortunately, under the plan, it is not just people and programs that will suffer. The Congressional Budget Office estimates that with a full extension of the Trump corporate tax giveaways, deficits will rise up to $3.5 trillion, the highest percent of GDP outside of a war

or a recession. We simply can't afford to do that, and it will be a wasted opportunity to improve our Tax Code if we do.

With that being said, we have a great opportunity to extend the parts of the tax cut that helped people, like doubling the standard reduction and the child tax credit. And we can work together to create a reformed tax system that is simple to understand, helps small businesses, promotes commerce, and enhances the welfare of everyday Americans.

Mr. Rowen, what are some of the previous—what are some of the provisions in the Tax cut and Jobs act that helped small businesses that you would like to see continued in a new tax package?

Mr. ROWEN. Well, I do think the 199A 20 percent reduction was good. I think the 100 percent amortizing, you know, taking those deductions right away, those are good. There is a lot of provisions. Anything that simplifies the Tax Code would be great.

But again, we do believe that if you simply leave this law in place and keep the corporate rate at 21 percent and give back to the small businesses their 20 percent reduction, you are still creating this uneven balance where small businesses are effectively being taxed at somewhere around 28 percent and corporations are still at 21 percent.

Mr. MCGARVEY. In my brief time remaining, we talked about deficits. We talked about that. We heard Mr. LaLota talk a little bit about recipient states and that sort of thing. I can tell you, I am from Kentucky. And last week, a few weeks ago, there was a study by the Republican Committee that proposed budgets that would cut Medicare, Social Security, and Affordable Care Act. In Kentucky alone, there are almost a million people enrolled in Medicare, more than 500,000 receiving both Social Security and ACA benefits. How do programs like these alleviate the workforce shortages that small businesses have been struggling with in recent years?

Mr. ROWEN. We can't compete with big businesses that can give health insurance to their employees. We just can't. We have finally fallen below 50 employees, so we don't have to have our own health insurance, which we had to carry for years and very few people in my company were actually able to afford it.

Chairman WILLIAMS. The gentleman's time is up.

Mr. MCGARVEY. Mr. Chairman is being nice. I see my time has expired. I yield back.

Chairman WILLIAMS. The gentlemen yields back. I now recognize Representative Molinaro from the great state of New York for 5 minutes.

Mr. MOLINARO. I apologize to the witnesses that you had to get double teamed by New Yorkers, although my colleague adequately divided the two of us and said Trump as many times as he could, and I appreciate the fear in which he expected to instill upon all of you. But let me offer that, Mr. Chairman, we appreciate the time at today's hearing, and certainly to each of you.

This is an important moment for small businesses. As we know, we are going to have to advance a tax policy that assists American families and American small businesses. Now, I was actually, as a New Yorker, very proud to vote for the Tax Relief for American Workers and Families Act. This bill, I think, is the first step to de-

livering relief to millions of Americans, and I was encouraged to see it come together in a bipartisan way. I trust and hope the Senate will take action soon.

I also am proud to introduce the Think DIFFERENTLY Small Business Accessibility Act. This bipartisan bill will expand the existing disability—excuse me, disabled access credit, which helps small businesses invest in accessibility for customers and employees of every ability. Now, these bills are proof that there is common ground to be had on tax policy, but there is a long road ahead to secure long-term extensions of the essential tax provisions that will deliver relief for families, farmers, and small businesses across the United States.

Dr. Hedlund, you outlined what you refer to as the blue collar boom in the immediate aftermath of adoption of the Tax Cuts and Jobs Act, actually quite a big benefit to small businesses and entrepreneurs across the country. According to your testimony, workers without a bachelor's degree saw a 130 percent acceleration in earnings from January 2017 to February 2020, a big benefit for small businesses and entrepreneurs. For a district like mine, in which less than half of the workforce has a bachelor's degree or higher, the impact of this growth cannot be understated.

So, could you highlight for us some specific industries that saw the most growth after the 2017 adoption, and then just speak to sectors where you foresee continued growth if we can come together on extending these important provisions?

Mr. HEDLUND. Absolutely. Well, I mean, the great thing about tax relief and a more competitive Tax Code is that it advantages all industries. There are too many policies where, unfortunately, the government ends up picking winners and losers and would go for this industry, not that industry, but what we actually saw was all industries gaining. We saw a lot of investment throughout the country and, as you pointed out, it benefited especially blue collar workers. And that is the thing with tax policy. It is not just the immediate dollars that the tax cuts themselves put in the pockets of people. It is the fact that it creates growth and that growth has massive benefits.

Mr. MOLINARO. I appreciate you saying that. And for countless small businesses, and those who, by the way, often feel like they have the skill and the capacity, but not society's expected level of education, to show the ability to succeed and to have policy that supports them, critically important.

Mr. Huff, good to see you again. I hope you enjoyed the cherry trees around Washington yesterday.

Mr. HUFF. I could not find a sole, so we are good.

Mr. MOLINARO. Okay, fair enough. Don't want you taking one home. Now, you highlight the importance of the 199A tax deduction in your testimony. As you know, over 95 percent of businesses in the United States are what we call pass-through entities, which means the TCJA helped millions of small businesses in New York and across the United States in the form of the 20 percent pass-through deduction. In fact, over 47,000 business owners in my district alone, small businesses, benefited and claimed the deduction in 2020. For this reason, I proudly cosponsor H.R. 4721, this is the Main Street Tax Certainty Act, with 169 other Members of the

House. The bill would seek to permanently extend the 199A deduction. If that deduction were to expire today, and I know you have talked about this, so let's reinforce it, if that deduction were to expire at the end of next year, could you speak to the impact on your business and some of the decisions you would have to make should that sunset?

Mr. HUFF. If this, the 199A and the bonus depreciation, changes, based upon my projections, rather than opening nine stores in the next 3 years, I will be only able to open one or two stores in the next 3 years.

Mr. MOLINARO. Massive benefit to businesses like yours. Now, Mr. Wetherington, the data shows that in 2018 alone, manufacturers added over 200,000 new jobs, the best year for job creation in manufacturing in 21 years. The same year, manufacturing production grew 2.7 percent, with December 2018 being the best month for manufacturing output. I will run out of time, but could you—without question, the impact of tax reform on manufacturing is clear. Can you just elaborate in 10 seconds or less the impact to your sector?

Mr. WETHERINGTON. Thank you for that. Policies have consequences. When there is a high tax rate, large employers moved offshore their manufacturing jobs. The lower tax rate, large employers started reshoring. It was going great before COVID. With COVID came the supply chain issues. It continues to go strong. We have got to keep these Tax Codes where they are.

Mr. MOLINARO. Mr. Chairman, the Tax Cut and Jobs Act helps small businesses, and we have got to come together to ensure they continue to get our support. And with that, I yield.

Chairman WILLIAMS. The gentleman yields back. I now recognize Representative Gluesenkamp Perez from the great state of Washington for 5 minutes.

Ms. GLUESENKAMP PEREZ. Thank you, Chairman Williams, and thank you to our panel of witnesses for being here today.

So, I own an auto repair and machine shop with my husband. And actually I have spent a lot of time reading, you know, books on tax savvy for small businesses and the kinds of things that make you want to crawl into a sleeping bag under your desk and never come out. And it is actually very frustrating and alienating for me to hear from—I will just be candid. I am grateful you are here. It is hard for me to hear people in ties tell me that, like, this is helping the trades because I feel like people in my world will never—we don't have the power to lobby for the tax cuts that would actually—right. We want a level playing field, we want a clear policy, we want to see a return to high-quality manufacturing, not just fueling consumption.

And I appreciate, you know, the testimony, Mr. Huff, particularly you were making about the investment in things like coolers, machinery. And I am thinking particularly, I am hoping you could expand, because my experience is if you can buy the nice thing, if you can buy the work boots that will last 3 years, you have got a real asset, right? You know, if you have got to buy the cheap thing because you are thinking about your depreciation schedule, not only does American manufacturing hurt, but we hurt in the middle class.

So, I wonder if you could talk about that, talk about your experience with your capacity for hiring and retaining employees.

Mr. HUFF. Yes, I can. The purchasing coolers, fixtures, point of sale systems, all of those create jobs and things like that. But for me specifically, it creates an environment where I can grow, I can make money and grow my business. And the 199A and the bonus depreciation actually allowed me to do more than I planned to do.

Ms. GLUESENKAMP PEREZ. I appreciate that and I think it is important that we are able to invest in high-quality equipment. But I, also, when I think about the sort of stuff versus people dichotomy, I think it is really important that our communities and our small businesses are able to invest in fixing their roof, putting more insulation in their shop, things that are investing in the capital. That is how communities actually build wealth in the long term. Grow your tax base, right? Make it so my shop isn't 107 degrees in the summer, things like that.

And one of the things that we see a lot is—I mean I have customers who tell me all the time like I didn't really want to buy a dually, but I needed to get above 6,000 GVW to qualify for the first year depreciation. And I am like, let me tell you how much it costs to replace a set of tires on a dually, you know. And so really thinking about ways that we can encourage a tax policy that prioritizes investment in human capital, in people, and not just a churn of stuff. And I am wondering, you know, to that end, who could speak on what they have seen that does prioritize investment in people and tradespeople.

Mr. HEDLUND. I would say that human capital investment is one of the most important types of investment, and it is not talked about enough. We need a Tax Code that is overall pro investment. And the challenge with steep tax penalties that are better now than they used to be, but we can make them even better, is that they discourage people from investing in themselves, because work is not just the paycheck you are immediately earning, it is the investment in your own future capacity. So if we have simple, low, and fair taxes, we can get a lot more of that.

Mr. ROWEN. And something like a small business tax cut for the first employee that they hire or if they send one of their employees to schools or you are just training somebody onsite, there used to be programs for workforce development years ago that had tax incentives. There is all sorts of things that can be done that small business folks will take advantage of.

Mr. HUFF. As I open stores, I have to hire a manager, an assistant manager, I have to hire associates. It is really critical that we continue to come up with tax policies that allow small businesses to grow because that is where the growth in employment is really happening, is in the small businesses.

Ms. GLUESENKAMP PEREZ. A workforce that is nimble, that has, you know, prioritizing the critical thinking, the sort of skills that you can take to any business, that allow you to open your own businesses, these are the kinds of investments that I think we need to see. We want to see shop classes in our high schools thriving and competitive. But I thank you for your time here.

Thank you, Chairman. I yield back.

Chairman WILLIAMS. Lady yields back. And we have come to the end of our hearing today. I want to thank all of our witnesses for the testimony, for appearing before us and coming, leaving your home and your business to do this.

Without objection, Members have 5 legislative days to submit additional materials and written questions for the witnesses to the Chair, which will be forwarded to the witnesses.

Again, I want to thank all of you for being here. We are the backbone of this great country.

And if there is no further business, without objection, the Committee is adjourned.

[Whereupon, at 11:49 a.m., the committee was adjourned.]

APPENDIX

TESTIMONY OF AARON HEDLUND
BEFORE THE HOUSE COMMITTEE ON SMALL BUSINESS
TAX DAY: EXPLORING THE ADVERSE EFFECTS OF HIGH TAXES AND A COMPLEX TAX CODE
APRIL 10, 2024

Good morning, Chairman Williams, Vice Chairman Luetkemeyer, Ranking Member Velázquez, and Members of the Committee. It is truly a privilege to engage with you today on such a timely and important topic as the federal tax code and its impacts on the broader economy.

My name is Aaron Hedlund, and I have been an economics professor for more than a decade. In that capacity, I regularly publish rigorous, peer-reviewed studies from my own analysis of the data, and I also have the opportunity to engage with some of the brightest minds in economics on pressing policy-relevant questions. From 2020 to 2021, I had the privilege to serve as the Chief Domestic Economist and Senior Advisor at the White House Council of Economic Advisers.

The Current Economic Context

Before delving into the specific issue of taxes, it is important to establish the economic context for our discussion today. Put simply, America is in the midst of a self-inflicted cost-of-living crisis that is causing upheaval for family and small business budgets. By self-inflicted, I of course do not mean to suggest that it is the fault of everyday Americans. To the contrary, blame largely rests at the feet of bad federal policy over the past three years. It is not my aim today to litigate the decision to repeatedly flood an already rapidly recovering economy with trillions of dollars of debt-fueled stimulus. I leave that job to Larry Summers, former Clinton Treasury Secretary and President Obama's National Economic Council Director, who was characteristically blunt in his early 2021 assessment when he critiqued the current administration's approach as the "least responsible macroeconomic policy" he had seen in 40 years. Inflation would go on to validate these criticisms by reaching a 40-year high in 2022.

Although the Federal Reserve has made progress in reducing the rate of inflation over the past year, the result is simply a slowing of further price increases. Prices remain 20% higher than they were a few years ago, and as a result, family incomes have fallen by thousands of dollars in purchasing power terms. In fact, the official inflation statistics do not even tell the full story of the cost-of-living crisis, because they do not account for the dramatic rise in mortgage rates that have driven housing affordability to record lows. In fact, a recent academic paper by Larry Summers and co-authors finds that the already-high inflation rate over the past couple of years would be over twice as high if the government were to include borrowing costs in its inflation calculations in the way that it used to before 1983. Their findings explain the not-so-mysterious mystery why people remain pessimistic: shrinking real paychecks spur economic discontent.

The current economic predicament serves as an important backdrop for today's tax discussion both because it underscores the urgent relief Americans need from the cost-of-living crisis and because it highlights two very different paths to bring about that relief. If one conceptualizes inflation as too much money chasing too few goods, the first approach is the painful medicine approach of taking some of that money back out of the economy by slamming the brakes on economic demand. The Federal Reserve's interest rate hiking campaign follows this approach, and it is essentially the only option available to the Federal Reserve, setting aside misguided advice by some to simply let inflation run hot out of the incorrect belief that workers benefit.

If the first approach is aimed at reversing "too much money" by slowing demand, the second approach seeks to reverse "too few goods" by expanding supply. The advantage of a supply-expansion approach to ending the cost-of-living crisis is that it does so by creating affordable abundance and raising economic growth. This recipe has succeeded in the past, most notably when the 1980s "supply-side revolution" of simpler, lower, and fairer taxes and pairing back of excess regulation put an end to stagflation.

The 2017 Tax Cuts and Jobs Act and the Blue-Collar Boom

As fellow Missourian Mark Twain reportedly once said, "History does not repeat itself, but it often rhymes." Coming on the heels of the 2007-09 financial crisis, the early to mid-2010s was another era of widespread economic discontent in the midst of what ultimately came to be the weakest economic recovery in modern American history, as shown in figure 1. Persistent efforts to stimulate the economy failed to create robust growth in the face of supply-constraining work disincentives. The eventual expiration of misguided stimulus policies created some momentum for the recovery, but by 2016, the Federal Open Market Committee and Congressional Budget Office (CBO) were forecasting the labor market recovery to stall and unemployment to flatten. In 2017, the Trump Administration and Congress took a different view of fiscal policy than their predecessors. Instead of pursuing stimulus-driven growth, they unleashed the beginnings of a blue-collar supply-side revolution by passing the 2017 Tax Cuts and Jobs Act (TCJA) and rolling back excessive regulation. TCJA contained a number of important provisions to make the U.S. more competitive on the world stage, to boost productivity-enhancing investment, to free up resources and level the playing field for small businesses, and to lift the burden of government for families who had not seen any gain in living standards between 2007 and 2015.

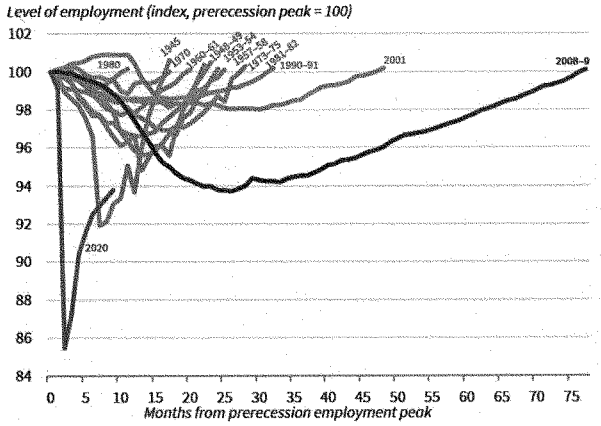


Figure 1: Comparison of Economic Recoveries (Source: Figure I-7, 2021 Economic Report of the President)

Before delving into some of the most important components of TCJA, it is worth remarking on the stellar performance of the U.S. economy in the years that ensued as it eclipsed the earlier forecasts. Instead of stagnating, the labor market attained unparalleled strength while GDP surpassed expectations, as shown in figures 2 and 3. Headline unemployment fell to 50-year lows, and a more inclusive measure—one that captures discouraged workers on the sidelines and part-time workers who prefer to have a full-time job—reached an all-time low in December 2019. Labor market opportunity reached every corner of America. The unemployment rate for African Americans and Hispanics fell to record lows, and Americans with lower levels of formal education experienced plummeting joblessness.

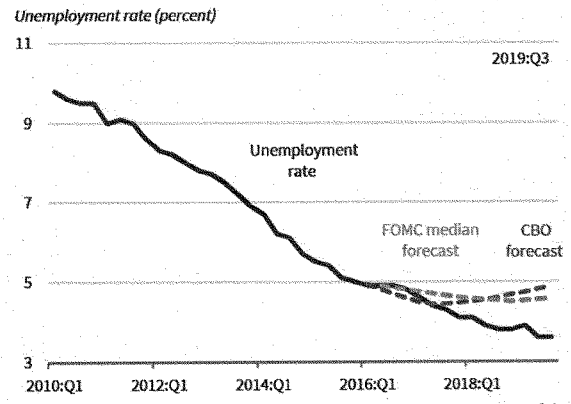


Figure 2: Actual vs. Forecasted Unemployment. (Source: Figure 1-3, 2021 Economic Report of the President)

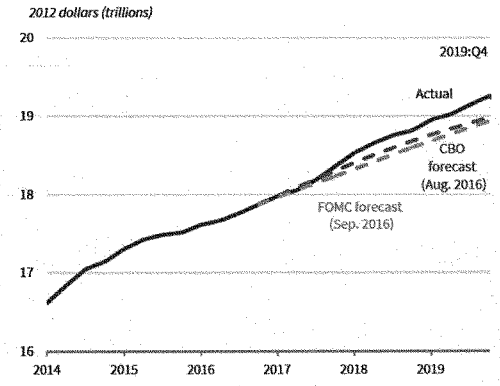


Figure 3: Actual vs. Forecasted GDP. (Source: Figure 1-7, 2021 Economic Report of the President)

America was in a full-scale blue-collar boom. While worker earnings overall grew at more than a 40% faster rate from January 2017 to February 2020 compared to the period from July 2009 to December 2016, the acceleration in earnings was 130% for workers without a bachelor's degree and 158% for the bottom 10% of wage earners. Workers in the top 10% also saw their earnings rise, albeit at a slower pace than for workers at the bottom who disproportionately benefited from a historically strong labor market. This robust employment and wage growth manifested itself in record-low poverty rates and the largest household income gains in history. As shown in figure 4, real (inflation-adjusted) median household income rose by over $6,000 post-2016 and by a record $4,400 in 2019 alone—more than in the entire 16-year period from 2000 to 2016. These outcomes were not some narrow *political* victory—they were an *economic* victory for the country, and especially for the forgotten Americans who had been left to languish on the sidelines and were largely written off as forever consigned to government dependency.

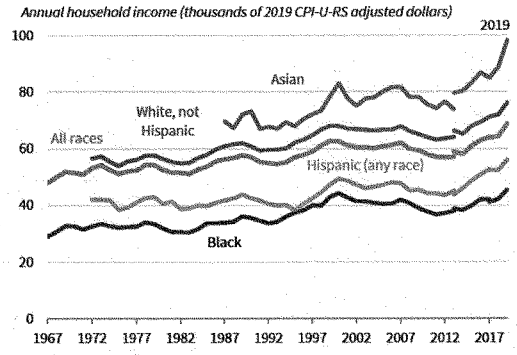


Figure 4: Real Median Household Income. (Source: Figure 1-4, 2021 Economic Report of the President)

The robust prosperity of 2017 to 2019 made the economy both stronger and more *resilient*, enabling it to better weather adverse shocks. Unfortunately, COVID-19 brought that adversity in force, causing GDP to experience its sharpest contraction in modern history in the second quarter of 2020. Decisive action by the federal government in spring 2020 proved critical to saving the economy and initiating the fastest recovery on record, but the pre-existing resilience of the economy was also an essential ingredient. Analysis by the Council of Economic Advisers has found that, if COVID-19 had occurred in 2016 under the weaker economic conditions that prevailed at the time instead of during 2020, millions more would have lost their jobs, and the unemployment rate would have taken considerably longer to recover.

The Ingredients Behind TCJA's Success

The blue-collar boom described above did not emerge by happenstance. TCJA helped pave the way with the pro-growth reforms it made to the tax code. For individuals and families, TCJA simplified taxes by doubling the standard deduction and raised disposable income by lowering marginal rates, letting people keep more of the fruits of their hard work. TCJA also expanded the Child Tax Credit while keeping in place critical work requirements so as to not discourage labor force participation. In terms of simplicity, nearly 50% of joint filers in 2017 itemized their deductions prior to the implementation of TCJA. In 2021, only 12% of joint filers itemized, with the vast majority of filers saving time and money by taking the generous standard deduction. It also improved fairness and economic efficiency by reducing the federal tax penalty for moving to lower tax locales and for making a larger down payment on a house. TCJA has been a boon for small businesses by cutting rates, creating the section 199A 20% deduction of pass-through income, and implementing full expensing for capital investment. All of these changes make it more viable and attractive for small businesses to increase hiring, wages, and investment.

If TCJA made substantial incremental improvements on the individual side, it made even more fundamental and necessary changes to corporate taxation. Prior to TCJA, U.S. businesses were

at a significant competitive disadvantage on the global stage because of America's burdensome corporate rate of 35% and practice of taxing worldwide income once repatriated. This system encouraged U.S. multinationals to shift income overseas instead of reinvesting in America. TCJA dramatically improved the corporate tax code by cutting the rate from the highest rate in the developed world to a rate closer to the median—21%—and shifting to a territorial system. In 2017, the Council of Economic Advisers noted the extensive literature linking corporate tax rate cuts to higher wages and estimated that TCJA could boost household income by $4,000 to $9,000—predictions that proved remarkably prescient and accurate. Also, since the passage of TCJA, at least $1.76 trillion has been repatriated from foreign subsidiaries back to U.S. shores.

TCJA also recognized that, while every community stands to benefit from the macroeconomic improvements of higher aggregate wages and investment, distressed communities face unique challenges to partaking in that prosperity. With that understanding in mind, TCJA harnessed the power of private capital by enacting the Opportunity Zone program, which created dramatic tax benefits for investing in high-poverty areas. In an initial assessment, the Council of Economic Advisers estimated that, by the end of 2019, $52 billion in net new investment had flowed into designated Opportunity Zone tracts that would not have otherwise occurred, consistent with figure 5. Subsequent rigorous studies have also found strong positive effects of the Opportunity Zone program, with one recent study finding that the program increased employment growth by between 3 and 4.5 percentage points, with the effects proving persistent. Opportunity Zone investment has occurred in a diverse array of sectors, but arguably no sector may need it more at the moment than real estate. Already, there is compelling evidence that Opportunity Zones are an important vehicle for alleviating the current crisis in housing affordability.

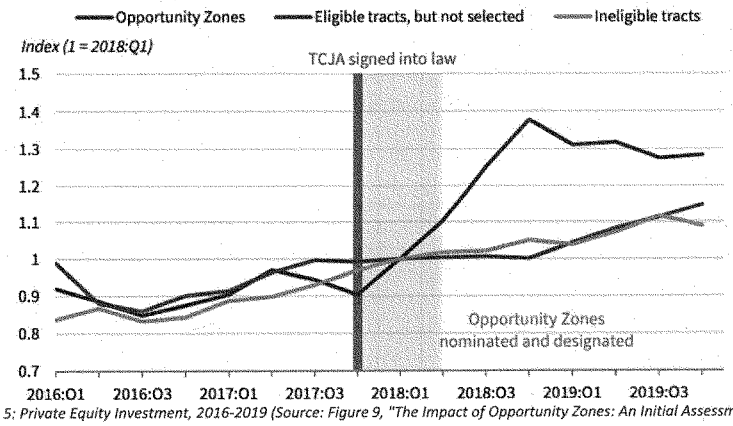


Figure 5: Private Equity Investment, 2016-2019 (Source: Figure 9, "The Impact of Opportunity Zones: An Initial Assessment")

Myths and Truths of Pro-Growth Tax Policy

Looking beyond the specific provisions, TCJA was rooted in well-established principles of sound, pro-growth taxation. Unfortunately, political rhetoric often perpetuates myths that obscure the underlying truth about the impact of taxes on the economy.

Myth: Tax Cuts are a Giveaway to the Rich
Truth: Tax Cuts Boost Wages, and Inequality Narrowed After TCJA

This myth is rooted in several fallacies. First, tax cuts do not "give away" money to anybody. They prevent the government from taking away as much to begin with. Tax cuts increase the reward to productive activity, whereas government handouts are disconnected from effort and productivity (in fact, often times subsidizing the opposite). Second, the entity signing the check sent to the IRS is often times not the ultimate bearer of the *burden* of taxation. Businesses are not passive in the face of taxes, and corporate CEOs are not cutting personal checks to pay their company's tax bill. Instead, taxes affect job creation, wages, investment decisions, and beyond. Research has found that workers and consumers bear much or even most of the burden of corporate taxes, with effects coming through lower earnings and higher prices. Thirdly, the share of the tax burden paid by the top 1% has *increased* over time, not decreased. In 2017, the top 1% of earners paid 39% of income taxes, and that share increased to 42% in 2020—nearly double their 22% contribution to aggregate income. Also, simply measuring the change in tax liability is not an accurate way of assessing the distributional consequences of tax cuts, because they also impact *pre-tax income*. As discussed earlier, household income surged after TCJA, with the largest gains accruing to the lower end of the income distribution. Wealth inequality also narrowed after TCJA, not because of declines at the top, but because of disproportionate gains at the bottom. In addition, there is an extensive body of academic research that finds negative economic effects of high taxes. In particular, tax increases reduce investment, impede innovation, and undermine productivity growth, which is the foundation of rising living standards over time. Even when the revenue from tax increases is redistributed to lower-income households, those households end up worse off because of lower overall incomes caused by the adverse response of the economy. In other words, class warfare is worse than zero-sum redistribution. It actively destroys economic prosperity.

Myth: Tax Cuts Starve the Government of Needed Resources
Truth: Tax Revenues are Above their Historic Average

Opponents of tax cuts assert that allowing Americans to keep more of their hard-earned money deprives the government of funds needed to fund ongoing operations. The numbers challenge this false narrative. For one thing, as of fiscal year 2022, federal receipts as a share of GDP were at their second highest since World War II, and the sum of payroll and income taxes as a share of the economy are projected to be almost a percentage point higher in 2024 compared to the average from 1994 to 2023. On the flip side, government spending as a share of the economy has skyrocketed in recent years. Prior to COVID-19, spending averaged around 20% of GDP over the fifty-year period from 1968 to 2019. While a temporary spike in spending was merited in

2020 to combat the unique circumstances of COVID-19, government has instead permanently expanded over the past three years. The CBO is forecasting spending to be 23% to 24% of GDP over the next 10 years, and rising further beyond that. The goal of tax policy should not be to accommodate an expansion of government by siphoning an ever-growing share of resources from families and small businesses already reeling from the burden of the cost-of-living crisis.

The Path Forward: Building Upon the Success of TCJA

The federal tax code is overly burdensome. Taxes are higher than they ought to be and more complex than they ought to be. Estimates put the amount of money that the American people spend just on *tax accounting* at between $67 billion and $378 billion per year. The burden of compliance with IRS regulations causes economic losses of another $148 billion to $609 billion annually. The antidote is for taxes to be simple, low, and fair. The Tax Cuts and Jobs Act of 2017 made tremendous progress when it transformed the corporate side of the tax code and made a significant down payment on reform of individual taxes. The most critical step the government can take is to extend TCJA and prevent the American people from experiencing a massive tax hike, especially after they have already been taxed by high inflation. The economy will benefit from the predictability of continued lower rates, small business relief, immediate expensing of investment and R&D, and other key pillars of the law. Going forward, here are some principles and priorities to have in mind to further realize simple, low, and fair taxes.

*Tax Simplification *Is* Deregulation*

As previously mentioned, IRS regulations impose substantial costs on the economy. Increasing the standard deduction in TCJA caused a dramatic decline in the share of households itemizing their tax returns, causing fewer of them to have to wade through IRS regulations on what can and cannot be deducted and under what conditions. Further base broadening efforts would allow for an even larger standard deduction. It is also worthwhile pursuing avenues to build upon the section 199A deduction to reduce small business compliance and accounting costs. Ultimately, the biggest source of complexity in the tax code is not the number of tax rates, but rather the many different types of income definitions and complicated carve-outs in the code.

Tax Fairness Advances Equality of Opportunity, Not Class Warfare

This testimony has already provided clear data to refute the idea that high-income Americans are paying less than their proportionate share of the tax burden. In fact, they are paying a higher share in taxes than is their contribution to aggregate income. One can debate the ideal degree of progressivity in the tax code, but starting with the false premise that the tax code is regressive is unhelpful. Genuine tax fairness aims to spread opportunity, not to spread others' wealth and pursue income leveling through class warfare redistribution.

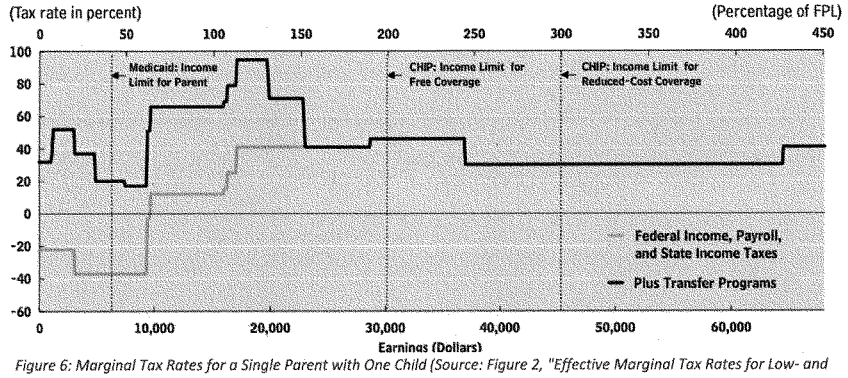


Figure 6: Marginal Tax Rates for a Single Parent with One Child (Source: Figure 2, "Effective Marginal Tax Rates for Low- and Moderate-Income Workers", CBO)

Aspiring Middle Class Families Experience Some of the Most Punitive Effective Tax Rates

There are two ways to measure the burden of a tax: how much of a person's total income it takes away (the average tax rate) and how much it penalizes someone in the form of a higher tax bill after they receive a raise at work, find a higher-paying job, or invest in themselves to switch to a more lucrative career. As a whole, high-income Americans undoubtedly pay the highest average tax rates. However, Americans looking to climb into or stay in the middle class face marginal tax penalties that in many cases are at least as high, if not higher, once one also accounts for the effects of means-tested provisions of federal taxes and transfers, as shown in figure 6. Put another way, for too many struggling and striving Americans on the edges of the middle class, earning higher pre-tax income can result in a minimal gain in take-home pay or even an outright decline. In this way, many Americans are penalized and disincentivized from trying to climb the economic ladder. The problem is compounded for second earners in two-earner families, with the second earner often facing extremely high penalties from entering or staying in the labor market. Addressing all of these defects is the supply-side issue of our time.

In addition to reducing effective marginal tax rates on struggling and striving Americans, it is worth exploring ways to extend and expand the Opportunity Zone program to allow people to receive favorable tax treatment when they invest paycheck income into an Opportunity Zone. At present, only capital gains income receives favorable treatment. Responsibly expanding the incentive would open the floodgates of potential investment into struggling pockets of America, allowing residents of limited means to invest directly in businesses in their own communities.

Improve the Treatment of Human Capital Investment

Enduring economic prosperity requires continual gains in productivity fueled by investment and innovation. This well-established fact explains why the tax code contains provisions favorable to the treatment of capital investment, such as immediate expensing and low capital gains rates. It

is important to remember, however, that physical and financial capital are not the only sources of capital. For most people, their greatest asset is their own human capital—their accumulated skills and capacities acquired during their childhood, formal education, workplace training, and experience on the job. In this vein, work is more than just a means to earn today's paycheck. It is also a way for people to invest in their own future earnings capacity, prepare themselves for tomorrow's more rewarding job, and perhaps to even start their own business. Sadly, when people invest in their own human capital, they can expect the tax code to significantly bite into their return on such investment or even erase it entirely.

Currently, the main way that the tax code seeks to incentivize human capital formation is to subsidize spending on specific government-approved human capital *inputs* like education while still taxing the *returns* on such investment, like a raise in pay, at high rates. Lawmakers should instead think more creatively and comprehensively about equalizing the priority the tax code places on encouraging broad human capital investment to that of other types of investment. For example, it is important to recognize that not all human capital investment takes place in formal education institutions, and it is worth evaluating how the tax code can better treat wage gains and losses as an analogy to how it treats other investment gains and losses. More broadly, the importance of human capital for economic prosperity raises the stakes for bringing about simpler, lower, and fairer taxes, because the cost of inaction is not just smaller paychecks today, but also less investment in the skills and knowledge that will fuel individual opportunity and America's economic strength for years to come.

Conclusion

TCJA extension is critical and ought to serve as the foundation upon which tax reform efforts continue to build. Simple, low, and fair taxes are not just about "putting money in peoples' pockets." They are about unleashing America's full economic potential and creating affordable abundance for current and future generations. Thank you for affording me the opportunity to speak with you about this important matter, and I look forward to answering your questions.

TESTIMONY OF

RAYMOND HUFF

PRESIDENT

HJB CONVENIENCE CORPORATION

AND

BOARD MEMBER

NATIONAL ASSOCIATION OF CONVENIENCE STORES

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS

HEARING ON

"TAX DAY: EXPLORING THE ADVERSE EFFECTS OF HIGH TAXES AND A COMPLEX TAX CODE"

APRIL 10, 2024

Thank you for providing me with the opportunity to testify on tax issues. My name is Raymond Huff and I am President of HJB Convenience. I own and operate seven convenience stores and have sixteen employees. My model is different than the typical convenience store as I have located my stores in high rise office buildings and some of the stores use self check-out technology so that no employees need to be inside the store to conduct business.

I am testifying today on behalf of my association, the National Association of Convenience Stores (NACS). NACS is an international trade association representing the interests of the convenience industry. In the United States, the industry includes more than 150,000 stores employing 2.44 million people. It is truly an industry of small business with a full 60 percent of the industry comprised of single-store operators. The industry handles about 165 million transactions each day – a number equivalent to about half of the U.S. population.

Today I will focus on section 199A of the tax code which provides small pass-through businesses like mine a deduction of our taxable income to help bring pass-through businesses into rough parity with C corporations from a tax perspective. I will cover the importance of section 199A to my business and others like mine, the need for tax fairness for businesses like mine compared to our larger competitors, the other benefits of the section 199A provision, and the importance of extending and making permanent the 199A deduction.

I. Executive Summary

Most small businesses, including mine, operate as pass-throughs and the section 199A deduction is essential to the competitiveness of those small businesses. The deduction has principally been used by small businesses though many have not been able to take advantage of the deduction for some of the years it has been in place due to the economic dislocations caused by the COVID pandemic. Small businesses need section 199A and other tax provisions from the Tax Cuts and Jobs Act, such as bonus depreciation, to remain in effect so that we can make full use of those tax policies as our businesses rebound from tough times.

Tax fairness between small and large businesses is essential. Small businesses like mine must be in a position to compete on a level playing field with larger businesses. Without section 199A, however, the playing field will simply be unfair to small pass-throughs.

Section 199A has delivered broad benefits to the economy through incentivizing investments, particularly in equipment, and providing a key lifeline to allow businesses to increase compensation to employees and create new jobs (or, in some cases, protect jobs that could otherwise be lost).

Each of those points is covered in more detail in this testimony. The bottom line is that small businesses are a central part of the U.S. economy and the section 199A deduction is essential for those businesses. Small businesses need those benefits into the future and would benefit tremendously from certainty regarding their future tax treatment. For those reasons, the section 199A deduction, bonus depreciation, and other beneficial provisions of the Tax Cuts and

Jobs Act should be extended and made permanent to provide small businesses with the foundation and certainty they need to invest and thrive.

II. Importance of Section 199A to Small Businesses

For the first two years that the section 199A deduction was in effect, I was able to benefit from it. When the pandemic hit, however, everything changed. People stopped going to work in the buildings where my stores are located. In many locations, I had no customers at all. Two-thirds of my stores closed. I have seven operating now and some days I wonder how we have kept them afloat.

My business has operated at a loss every year since 2020. With no profits, I have not been able to make use of the 199A deduction during that time. My message to you is simple: please do not take away the 199A deduction before I have a real chance to benefit from it. I need those benefits to compete and get back to real profitability. The deduction ought to be extended and made permanent so that I can plan for the future knowing what I will face.

But, this obviously isn't just about my business. Many, many small businesses have similar stories. I have seen most of the other businesses that were doing well right next to mine in office buildings and downtown locations reduce hours, lay off employees, and close. Even now, office building occupancy rates are currently at around 50%. That is not enough to sustain many of the businesses that have traditionally operated in central business districts. Restaurants, for example, were hit very hard by the pandemic. Some were able to survive selling take-out and delivery food while some were not able to make that pivot. Even most of those who did will tell you that take-out sales didn't work as well for them as in-person dining. And, movie theaters and other venues that depended on people being there in person were devastated by the pandemic.

All of these small businesses have had similar experiences. Like mine, many still are waiting to see profits and get the benefits of the tax break for pass-throughs that has been in place during this time. And, none of these small businesses want the rug pulled out from under them just when they have a shot at getting some benefit from the deduction. This is no time to pull back on the ability of small pass-through businesses to profit and grow.

The evidence shows that section 199A has primarily benefitted small businesses. The Congressional Research Service, reporting on Internal Revenue Service data, has found that 80% of claims for the 199A deduction have come on adjusted gross incomes of $200,000 or less and full 98% of claims have come on adjusted gross incomes below $1 million.[1] That is a strong indication that the deduction has worked to target small businesses with better tax treatment.

III. The Need for Tax Fairness

One of the major reasons for the 199A deduction is simple fairness. With the reduction in corporate tax rates in the Tax Cuts and Jobs Act, it was clear that small businesses could have

[1] Gary Guenther "The Debate Over Extending the Section 199A Deduction for Qualified Business Income," Congressional Research Service (Aug. 18, 2023) (available at 2023-08-18_IN12226_cce8a1bda0a3c63f891d879b8fab45b3e591084d.pdf (everycrsreport.com)) at 2.

faced a major competitive disadvantage. There are big chains that that are C corporations and pay lower rates than the small pass-throughs that they compete with every day. The tax code should not favor their growth and profitability over ours.

Section 199A brought rough parity to small and large businesses so that businesses like mine had a shot. If larger businesses had a tax advantage, that would allow them to use those dollars to out-compete me on price, service, technology or other investments. Given a fair shot, I know that small businesses can more than hold our own. 199A gives us that fair shot.

The data shows that the provision has been successful in achieving rough parity in tax rates between C corporations and pass-throughs. C corporations pay effective tax rates between 25 and 31 percent while, due to section 199A, pass-throughs pay an effective tax rate of 27 percent.[2] And, it's worth noting that large pass-throughs pay an effective tax rate of 34 percent which is one piece of evidence that the intended effect of helping small businesses achieve tax parity is being achieved without creating a windfall for large businesses.[3] As Ken Kies has concluded based on his own analysis of tax fairness (including that even with section 199A, pass-throughs are taxed at a higher effective rate than C corporations), "Current law section 199A should be retained in its entirety. Doing so will still leave passthroughs more heavily taxed than C corporations, but removing any of the benefits of section 199A will only make the disparity worse."[4]

I would also note that small businesses like mine can't just convert themselves into C corporations to get tax fairness if section 199A goes away. That is because small businesses like mine would face the full burden of double taxation of earnings when we take profits out of our small businesses. Large C corporations for the most part can avoid the double taxation problem. Small businesses can't. That's a big reason why we only get fairness with section 199A in place.

IV. Broad Benefits of Section 199A

When I was able to take advantage of it, the pass-through deduction helped me invest more in technology and equipment for my stores. The new technology allowed me to do some of the things that only some of the biggest businesses – like Amazon – could do in the past. While I will never have their resources, I was able to move quickly on a smaller scale and retrofit some of my stores to allow for a similar automatic check-out experience. I'm glad that I did. Those upgrades were essential for keeping some of my locations in business when our customer count dramatically fell. Without the 199A tax provision, I don't know if I could have made those investments or, later, kept those stores. Losing 199A may mean more losses of small businesses in the future than we know.

Making those types of business investments more affordable is exactly what the 199A provision is designed to do. The Congressional Research Service has described it well in noting,

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[2] "The Importance of 199A" S-Corporation Association of America (June 22, 2023) (available at The Importance of 199A - The S Corporation Association (s-corp.org)).

[3] *Id.*

[4] Kenneth J. Kies "The Ryder Cup and Section 199A – Really!" tax notes federal (Oct. 5, 2021) (available at TNF 10-11-2021.book (s-corp.org)).

"The deduction, combined with the reduced individual income tax rates under the 2017 tax law, reduces the user cost of capital for eligible pass-through businesses, expanding the portfolio of investments a firm could profitably undertake. As such, the law improves investment incentives for these firms. The boost, however, may be limited by the temporary nature of the reduction in effective tax rates for pass-through business income."[5]

That is particularly true when you look at the 2017 Tax Cuts and Jobs Act more broadly. The combination of the 199A deduction, corporate tax relief, and the 100% expensing provisions of the 2017 law reduced the effective tax rate of investments in tangible assets making it easier and more affordable for businesses to invest.[6] That is just the type of behavior we ought to be encouraging. Investment is a path to small businesses growing and thriving as well as a good way to spur economic activity overall.

While there are not good studies on the actual investment effects of section 199A, multiple studies show that the deduction creates stronger incentives for pass-through businesses to invest – particularly with investments in equipment.[7] According to research conducted by the National Federation of Independent Business in 2022, "56% of small business owners reported capital outlays in the last six months, 45% reported raising compensation, and 23% plan to create new jobs in the next three months."[8]

NFIB has noted that section 199A was an important part of giving small businesses the ability to make those investments in wages, new employees, and capital.[9] Over the last few years, for example, we have seen tight labor markets lead businesses to pay more to attract and retain workers. Rising minimum wages in a number of states have added to this trend. Without 199A, it would have been much more challenging for small businesses to keep pace with these trends.

These provisions of the tax code form a virtuous cycle that benefits all of us – particularly when you take into account the central role that small businesses play in the U.S. economy. That importance has been noted by many, but the U.S. Small Business Administration Office of Advocacy is one key source. In the past, they have found that small businesses account for two-thirds of net new jobs and drive 44 percent of U.S. economic activity.[10] SBA also concluded that small businesses "drive U.S. innovation and competitiveness."[11]

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[5] Gary Guenther "Section 199A Deduction: Economic Effects and Policy Options" Congressional Research Service (Jan. 6, 2021) at 3 (available at Section 199A Deduction: Economic Effects and Policy Options (congress.gov)).
[6] *Id.* at 3.
[7] Gary Guenther "Section 199A Deduction: Economic Effects and Policy Options" Congressional Research Service (updated Feb. 8, 2024) at 4-5 (available at Section 199A Deduction: Economic Effects and Policy Issues (fas.org)).
[8] "Inflation Remains Top Business Problem for Small Business Owners" National Federation of Independent Business (Oct. 11, 2022) (available at Inflation Remains Top Business Problem for Small Business Owners - NFIB).
[9] "NFIB Members Discuss the Small Business Deduction" National Federation of Independent Business (Nov. 3, 2022) (available at NFIB Members Discuss the Small Business Deduction).
[10] U.S. Small Business Administration Office of Advocacy "Small Businesses Generate 44 Percent of U.S. Economic Activity" (Jan. 30, 2019) (available at Small Businesses Generate 44 Percent of U.S. Economic Activity – SBA's Office of Advocacy).
[11] *Id.*

V. The Need to Make Section 199A Permanent

If we want a healthy small business sector and want to continue to encourage those businesses to make investments and grow, we need to extend section 199A as well as bonus depreciation. That is a sure path to continuing the benefits we have seen from the provision. But, part of business investment involves projecting the future. The more confidence that businesses have in that future, the more likely they are to invest. Many investments – particularly in new innovations and technology – can take many years to pay off. That is a major reason why Congress should not just extend section 199A but should make it permanent. Right now, we don't know if we will lose that deduction in the near future. That uncertainty will keep popping up as long as this tax provision has a near-term expiration date. Making the deduction permanent would provide the certainty that businesses need to plan long-term.

As noted earlier, this is also a basic matter of fairness. Without section 199A, businesses like mine will be taxed at significantly higher effective rates than C corporations. We have to compete with those big companies every day. I think small businesses are remarkably successful in doing that. We don't have the same capital as the big players, but we are close to our customers and can be nimble. We don't need the tax code putting a thumb on the scale in favor of our larger competitors. Let's keep it fair. If we do, I'm confident that U.S. small businesses can more than hold their own.

* * *

Thank you for providing me the opportunity to give the Committee my views on this important tax provision. It looms large for my business and for many others in my industry and across U.S. industries. I welcome the opportunity to work with the Committee as it considers tax priorities in the next year.

Testimony of Chuck Wetherington
President of BTE Technologies, LLC
United States House of Representatives
Committee on Small Business
"Tax Day: Exploring the Adverse Effects of High Taxes and a Complex Tax Code"
April 10, 2024

Good morning Chairman Williams, Ranking Member Velázquez and distinguished members of the committee. Thank you for holding today's important hearing regarding the U.S. tax code's impact on small manufacturers in America.

My name is Chuck Wetherington, and I am president of BTE Technologies, a 40-person small manufacturer located in Hanover, Maryland. For more than 45 years, BTE has been a top medical device provider, offering advanced solutions for physical testing and rehabilitation. We have continuously innovated technologies and advanced the field in treatment, evaluation and research to provide success to modern orthopedic hospitals and physical therapy clinics. BTE also has developed world-class workplace injury avoidance solutions, which have been utilized by numerous Fortune 500 companies. We are a small and dedicated team that prides ourselves on our domestic manufacturing capabilities.

The world is rapidly changing. When I became BTE's president in the early 2000s, the dream of competing on a global scale seemed out of reach. Only the largest companies with the resources and infrastructure in place were able to send their products overseas in a meaningful way and have their name receive worldwide recognition. Today, however, BTE Technologies is able to produce and ship high-quality medical devices around the world from a 40-employee operation just 30 miles from the room we sit in now. This would not be possible without a U.S. tax code with pro-growth and consistent tax policies that promote small and medium manufacturers.

A few basic truths should guide Congress's efforts to promote manufacturing growth through the tax code:

- The tax code must be simple;
- The tax code must be consistent; and
- The tax code must support growth and job creation here in America.

These are not partisan priorities—I would be shocked if any of you introduced legislation that would intentionally make the tax code more difficult for small manufacturers to comprehend.

However, the tax code has started to work against BTE and our fellow small manufacturers in recent years. Critical provisions that made it easier for small manufacturers to prosper have expired or are set to expire in the near future. I applaud every member of this committee who voted to advance the Tax Relief for American Families and Workers Act in January of this year, but as we all know, our work is not done, and a larger tax policy reckoning is looming.

I. The Tax Code Must Support U.S. Manufacturing

Prior to 2017, our tax code had not been given a thorough review in 30 years, causing the United States to fall behind globally. The Tax Cuts and Jobs Act cut the corporate income tax rate from 35% (one of the highest in the developed world) to 21%. To support investments in growth, the TCJA allowed businesses to immediately deduct the full cost of new capital purchases and doubled the expensing limit for investments by small businesses. Almost as significant as the corporate rate being lowered to a globally competitive level, the TCJA created a new deduction for pass-through business income, allowing businesses that pay tax at the higher individual rates to deduct 20% of their qualified business income each year. Individual tax rates were reduced as well, working with the pass-through deduction to bolster small business competitiveness throughout the economy. There also were a host of changes to our international tax system, shifting the U.S. from a "worldwide" approach to a new modified territorial tax system, as well as other changes.

These changes, all significant in their own right, worked in concert to drive a tsunami of economic activity and industrial growth for small and medium manufacturers. Following the TCJA's passage, the manufacturing sector experienced the best year for manufacturing job creation in the previous 21 years and the best year for manufacturing wage growth in the previous 15 years.[1] Manufacturing capital spending grew 4.5% and 5.7% in 2018 and 2019, respectively.[2]

Unfortunately, the United States is now falling behind once again. Beginning in 2022, crucial policies enacted by the TCJA began expiring or phasing out, including the ability to immediately deduct research and development expenses, enhanced interest deductibility on business loans and the ability to deduct the cost of capital investments in the year acquired. It is bad enough that these changes went into effect, but they are symptoms of a larger problem: domestic manufacturers rely on stability within the tax code, and Congress has been unable to deliver that predictability.

Due to the uncertainty over whether Congress will address the expiration of federal tax incentives related to R&D, interest deductibility and expensing for capital investments, 40% of respondents in a recent survey of manufacturing executives reported that they have already been forced to pull back on hiring and investing.[3] In the same survey, 94% of respondents said that it is important for the federal tax code to help reduce manufacturers' costs for conducting R&D, accessing capital via business loans and investing in capital equipment purchases.

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[1] National Association of Manufacturers, "Competing to Win" (September 2022). *Available at* https://documents.nam.org/ctw22/competing%20to%20win%202022%20-%20tax.pdf.
[2] *Ibid.*
[3] NAM Manufacturers' Outlook Survey, First Quarter 2024 (March 2024). *Available at* https://nam.org/wp-content/uploads/2024/03/Outlook-Survey-March-2024-Q1.pdf.

At BTE, the loss of immediate R&D expensing has had a detrimental impact. Bringing a new medical device to market is a multiyear process, necessitating significant investments in R&D. Being required to amortize our R&D expenses has forced us to staff our technical team at a reduced level, slowing down the development of new products.

Our suppliers have felt the pain of Congress's failure to extend these provisions as well. We purchase parts from companies that are now less able to make capital investments—both because debt financing is more expensive and because they can no longer immediately deduct the costs of those investments. This makes BTE's supply chain more vulnerable and increases our operational costs.

Solving problems and innovating are what manufacturers do, but if policymakers do not establish and maintain a pro-growth tax code, we can't stay competitive and continue to be economic drivers for the U.S. economy.

At the end of the day, small manufacturers need two things from Congress in order to succeed: consistency and simplicity. A constantly changing tax code means that small businesses like mine have to divert time and resources away from what we do best—making things in America—and hire outside experts to help us navigate the complexity. Over the past decade, we've had to function under a changing tax code seemingly every other year, and more changes are on the horizon. Manufacturers require tax policy that allows us to plan well into the future so we can remain pillars of our communities.

II. Congress Must Immediately Address Expired Tax Policies

On January 31, 2024, the House passed the Tax Relief for American Families and Workers Act by a bipartisan vote of 357–70. This legislation would reinstate several of the pro-growth TCJA provisions that expired in 2022—each of which is critical to manufacturing growth.

Immediate R&D Expensing

For more than 70 years, taxpayers were allowed to immediately deduct 100% of their R&D expenses in the year they incurred. In 2022, however, the tax code began requiring so-called "amortization" of these expenses, forcing manufacturers to recover only a small portion of their costs over several years. This is devastating for BTE, as the ability to immediately deduct these expenses allowed us to hire more qualified workers, invest in advanced robotics and increase our production capabilities by several magnitudes.

We are currently in the process of updating and improving our flagship products, which account for more than 70% of our sales—but the R&D amortization requirement has slowed our progress, ultimately delaying the expansion and increased sales that we expect to significantly increase our employee headcount.

Taxing manufacturers' investments in critical R&D expenditures means that we will have less capital to invest in workers and our future growth. The private sector accounts for more than

75% of total R&D spending, with small businesses accounting for approximately $90 billion of all private-sector R&D investments. With this recent change, Congress has now made the U.S. one of only two developed countries in the world that require the amortization of R&D expenses. Companies like BTE now face *increased* costs and *reduced* global competitiveness when we seek to undertake job-creating R&D.

A recent report from the European Union found that both the EU and China gained a significant advantage after the expiration of the TCJA R&D tax policies. In 2022, the first full year after immediate expensing for R&D expired in the United States, EU R&D growth surpassed the U.S. for the first time in nearly a decade. Even more worrisome, China's R&D growth tripled that of the United States that year. Chinese companies enjoy a super-deduction on research spending, while BTE and other manufacturers in the U.S. must now compete with weights strapped to their ankles following the expiration of immediate R&D expensing. China is not the only country offering better R&D incentives—17 countries now provide a deduction that is more than 100% of eligible R&D expenses, further making the United States a less attractive place to conduct R&D. At a time of increasingly fierce global competition for research dollars, Congress must act to ensure the next R&D dollar is spent in the United States to secure our global leadership in innovation and strengthen our nation's economic and national security.

Pro-Growth Interest Deductibility

The expiration of the TCJA's pro-growth interest deductibility standard also disproportionately harms manufacturers. At the beginning of 2022, the deduction for interest on business loans was reduced, with the maximum deduction allowed under Section 163(j) of the tax code narrowed from 30% of earnings before interest, tax, depreciation and amortization (EBITDA) to 30% of earnings before interest and tax (EBIT). Excluding depreciation and amortization reduces the amount of interest businesses can deduct, making it more expensive for manufacturers to finance capital equipment purchases.

Allowing this stricter limitation to continue greatly affects manufacturers' ability to compete globally. Among the 35 countries that have a rule that restricts interest deductibility based on a ratio of interest expense to some measure of earnings, the United States is the only country that has an EBIT-based rule. Generally, China does not limit any third-party interest deduction. According to a recent study, keeping the EBIT standard could cost the U.S. economy 467,000 jobs and reduce U.S. GDP by $43.8 billion.[4]

Cost-effective debt financing is crucial to small businesses that are trying to buy and sell large pieces of capital equipment, which requires debt financing. We see this throughout manufacturing given how capital-intensive the industry is—many of BTE's suppliers utilize debt financing to expand their operations and invest in growth, yet their ability to do so is limited by

[4] "Economic impact of a stricter 163(j) interest expense limitation," EY (September 2022). *Available at* https://documents.nam.org/tax/nam_interest_deductibility_study.pdf.

the more-restrictive interest deductibility standard. Ultimately, this switch to an EBIT standard weakens the manufacturing supply chain and increases BTE's costs.

Additionally, at BTE we offer a rental program for some of our equipment. When we rent out a product, we are required to depreciate the cost of the equipment over several years. That accounting treatment widens the difference between our EBITDA and our EBIT (because it increases our depreciation expenses—the "DA"). Under the new interest deductibility standard, this results in a lower cap on how much interest we can deduct, making it more expensive for us to debt finance additional investments. Without congressional action to reverse this harmful change, both our rental program and our ability to finance additional growth could be at risk.

Full Expensing

Finally, the ability to immediately deduct the full cost of a purchased machine or capital investment began phasing out in 2022 and will be eliminated completely by 2027. According to the Joint Committee on Taxation, the manufacturing sector, and specifically small manufacturers, overwhelmingly utilize accelerated depreciation more than any other sector.[5] Allowing accelerated depreciation to continue to phase out will increase the cost of capital investments for small companies across the manufacturing sector. It also could encourage companies in the manufacturing supply chain to rely on older pieces of equipment.

New equipment designed and produced by manufacturers in America creates jobs here at home and drives the American competitive spirit. BTE's shop floor is full of expensive, complex equipment that is vital to our operations. Yet the phase out of full expensing makes it more difficult for manufacturers like BTE to invest in capital equipment. It also undermines certainty in the tax code—there has been some form of accelerated depreciation for capital equipment in the tax code for decades, and allowing it to completely expire would force companies in the U.S. to compete with one hand tied behind their back as countries around the world are implementing their own expensing schedules.

Again, I thank every member of this committee who supported the Tax Relief for American Families and Workers Act. This critical legislation would extend immediate R&D expensing, pro-growth interest deductibility and full expensing until 2025. Reversing these harmful tax changes will have an immediate impact on BTE and small manufacturers throughout the manufacturing supply chain. Acting now also will give Congress time to plan for a more permanent solution for these vital incentives by aligning them with the full suite of important TCJA provisions that will expire at the end of 2025.

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[5] "Tax Incentives for Domestic Manufacturing," Joint Committee on Taxation, JCX-15-21 (March 2021). *Available at* https://www.jct.gov/publications/2021/jcx-15-21/.

III. The Upcoming Tax Battle

Tax reform was rocket fuel for U.S. manufacturing. Even after the pandemic, significant supply chain challenges and the current uncertainty surrounding R&D, interest deductibility and full expensing—tax reform's benefits are still felt at BTE and throughout the industry. But many of the TCJA's key provisions, including several that directly impact small manufacturers, are at risk. Critical policies are set to expire at the end of 2025, threatening the gains we've seen over the past several years.

- Many small manufacturers are organized as pass-throughs, including most of BTE's key suppliers. These companies are able to utilize the 20% deduction on pass-through business income enacted by the TCJA. This deduction will expire at the end of 2025. A tax increase on pass-throughs would have a damaging, disproportionate impact on the manufacturing industry.
- Similarly, the TCJA's reduction in the individual tax rates that pass-through businesses use to calculate their taxes will sunset at the end of 2025. This will result in a direct tax increase on American families and on pass-through manufacturers that pay tax at these individual rates.
- The TCJA also increased the exemption threshold for the estate tax, allowing more of a family-owned business's assets to be passed on to the next generation without incurring a tax burden. The increased exemption is set to expire at the end of 2025, which will expose more of a family-owned business's assets to taxation, making it increasingly difficult for them to continue operating and supporting local jobs following the death of a loved one.

Congress must prevent these tax increases from taking effect in 2026 so that small manufacturers are able to grow, create jobs and invest in their communities. At BTE, we are expecting growth of over 50% in the next five years—if the tax code allows us to invest in the R&D necessary to continue to improve our flagship products, and if we don't experience additional tax increases in 2026.

Small manufacturers face an uphill battle and a daunting set of challenges, and it is well known that small businesses often fail. Entrepreneurs who go into business despite these obstacles—and their hardworking employees—deserve a tax code that not only promotes innovation but demonstrates to the rest of the world what our values will be for the next decade and beyond. Congress must implement simple, commonsense, pro-growth tax policies that support small manufacturers across the country. The U.S. must attract more industrial dollars to our shores—not encourage, or in some cases force, companies to conduct their business overseas.

This committee has a lot of work ahead of it. I hope you keep the manufacturing sector at the forefront of your thoughts as you deliberate the next incarnation of the tax code for the greatest country in the world.

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I want to thank Chairman Williams and Ranking Member Velázquez for giving me the chance to testify today. Manufacturing truly is the backbone of our nation, and I appreciate all members of the committee for continuing to give our industry the attention it deserves. Through sound tax policy, we will continue to create jobs, innovate, compete globally and provide a better future for all Americans.

SMALL BUSINESS
FOR AMERICA'S FUTURE



WRITTEN TESTIMONY FOR THE UNITED STATES
HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS

BY WALT ROWEN
CO-CHAIR OF SMALL BUSINESS FOR AMERICA'S FUTURE
PRESIDENT OF SUSQUEHANNA GLASS IN COLUMBIA, PA
APRIL 10, 2023

My name is Walt Rowen, and I am the President of Susquehanna Glass in Columbia, Pennsylvania, and Co-Chair of Small Business for America's Future (SBAF). Susquehanna Glass is a family-owned glass decorating business that has been in operation for 114 years, with each generation having navigated various economic upheavals. Despite these challenges, our business has figured out how to persevere and continue operating. We currently employ around 35 people and are proud to play an active role in our local community by providing good jobs and economic activity since 1910. Our success is intrinsically linked to the success of our community, and I believe that investing in small businesses is an investment in the prosperity of our workers and neighborhoods.

Small Business for America's Future is a national coalition of small business owners and leaders dedicated to providing a strong voice for small businesses at every level of government. SBAF has long advocated for tax reforms that benefit small business and is committed to ensuring that policymakers prioritize the needs of Main Street by promoting a just and equitable economic framework that supports small business owners, their employees, and the communities they serve.

Small Business Success Leads to Community Success

As a small business owner, I am deeply embedded in my community, and I recognize that the success of my business, like that of all small businesses, is inextricably linked to the success of my community. Small businesses are the lifeblood of our economy, creating jobs, driving innovation, and investing in the communities they serve. In fact, the country's 30 million small businesses are responsible for nearly half of all private-sector employment and have been the primary source of job creation for decades. My family's business, Susquehanna Glass, having navigated World War I, the Great Depression, World War II, the Great Recession, and, most recently, the COVID-19 pandemic, has been a proud contributor to our local economy for more

than a century. However, our ability to weather these storms and continue serving our community has not been solely due to our own efforts. During times of crisis, government programs like the Paycheck Protection Program and the Small Business Administration's EIDL loans have been crucial lifelines that have allowed us to keep our doors open during the most challenging times.

Given the vital role that small businesses play in our economy and our communities, I have high expectations for how the government should support Main Street. We need investments and policies that create an economic climate that allows small businesses to thrive, which in turn will lead to thriving communities. When small businesses succeed, they create jobs, stimulate economic activity, and generate tax revenue that can be reinvested in local communities.

While smart tax policy is undoubtedly an important piece of the puzzle, it is not the only tool at the government's disposal. To truly support small businesses and the communities they serve, the government must take a comprehensive approach that includes investments in creating new economic opportunities and building a strong workforce. This means investing in training programs to ensure that small businesses have access to skilled workers, making healthcare and childcare more affordable, and investing in infrastructure projects that can help small businesses reach new markets and provide new business opportunities. To fund these investments, we need tax reforms that support small business success, close loopholes, and ensure that everyone pays their fair share. These reforms will generate the revenue needed to create new economic opportunities and build a stronger economy that works for everyone.

In short, supporting small businesses is not just about creating a favorable tax environment, but also about making strategic investments that create new opportunities for growth and success.

The Impact of the Tax Cuts and Jobs Act (TCJA) on Small Businesses

The current tax code, particularly the Tax Cuts and Jobs Act (TCJA), has not adequately addressed the needs of small businesses, does not reward their impact, nor does it invest in their success. The TCJA in particular heavily favors large corporations and has failed to create an environment that promotes growth on Main Street. A recent national survey of more than 1,100 small business owners conducted in February by SBAF shows how little the law has done for entrepreneurs:

- 80% of small business owner respondents said the TCJA did not help them hire new employees
- 76% said it did not help them increase salaries
- 76% said it did not help them purchase new equipment
- 72% believe the tax code favors large corporations over small businesses

These results highlight the disparities in benefits received by large corporations and small businesses under the TCJA. While corporations received a permanent 40% tax cut (from 35% to 21%), pass-through entities—the majority of small businesses—received a meager temporary 20% deduction that, as the survey results show, had little material impact on small businesses.

Furthermore, contrary to promises made by the TCJA's proponents, the tax cuts have not paid for themselves. The small business community takes long-term fiscal responsibility seriously, and it is now clear that these tax cuts have not been fiscally prudent. The TCJA's failure to

deliver meaningful benefits to small businesses while adding significantly to the national debt is a concern for small business owners who value sustainable economic policies.

The TCJA's failure to adequately support small businesses represents a missed opportunity to create jobs, raise wages, and empower entrepreneurs to invest in their businesses and contribute to the growth and vitality of their communities. As Congress considers future tax legislation, it is crucial that they prioritize the needs of small businesses and create a system that promotes Main Street success.

A Need for a Tax Code Designed to Support Small Business

Many provisions in the TCJA are set to expire, but merely extending them beyond 2025 would lock in a tax scheme that does not work for small businesses. Instead, we need to take this opportunity to implement tax reforms that enable Main Street success. Helpful policies for small business include:

- A tax credit for a small business owner hiring their first employee to stimulate business growth and job creation
- Making the first $25,000 in profit for a small business tax-free
- Doubling the startup tax deduction for small businesses
- Ensuring tax equity for the self-employed.
- Raising the top corporate tax rate to 28% and ensuring billion-dollar corporations pay at least 21% of their income in taxes to give lawmakers the means to make impactful economic investments.

Importantly, policymakers must simplify tax matters for small business owners.The tax code is far too complicated, and compliance is time-consuming and costly. Small businesses simply do not have the resources, time, or expertise to find every benefit available to us. Simplifying the tax code would be a game-changer for small businesses, allowing us to focus our energy on what we do best—serving our communities and growing our businesses.

Increased Revenue Enables Creative Solutions

Smart tax reforms and ensuring that taxes rightfully owed to the Treasury by large corporations and the wealthy are collected—the recently allocated funds to modernize the IRS are crucial in this regard—will open up pathways to address the challenges that small businesses face.

This will provide the means to implement policies that truly move the needle for small businesses and their employees, such as affordable child care, child tax credits, training incentives, immediate write-offs for new equipment purchases, affordable health insurance, and infrastructure improvements. These policies would not only benefit small businesses directly but also strengthen the communities they serve.

When small businesses succeed, they create jobs, stimulate economic activity, and contribute to the vitality of their communities. By using the revenue generated from tax reforms and improved tax collection to fund policies that support small businesses and their employees, we can build a more resilient, and prosperous economy for all.

The Need for Tax Reform and Smart Investments in Light of Record Entrepreneurship

The need for smart tax reform and smart policies supporting Main Street is particularly urgent given the historic surge in new small business starts in recent years. U.S. Census Bureau data shows the nearly 16 million new recorded business applications since 2021 represent an approximately 85% increase in the average flow of monthly applications compared to the period between 2004 and January 2021. The monthly average of 440,000 new business applications over the past three years is 46% higher than the average from 2017 through 2020 combined.

This growth in entrepreneurship has been particularly pronounced among women, Latinos, and Black Americans. Black business ownership is growing at the fastest pace in 30 years, with the share of Black households owning a business more than doubling from 5% to 11% between 2019 and 2022. Similarly, Latino business ownership rose from 7% to 10% during this period, the fastest pace in over a decade. Women-owned businesses have seen the most dramatic growth, with the rate from 2019 to 2023 outpacing that of men-owned businesses by 94%. This diverse wave of entrepreneurship represents a tremendous opportunity to build a more robust economy, but only if we provide these new businesses with the support they need to succeed.

As a nation, we must seize this moment of historic entrepreneurship and ensure that our tax policies and investments are aligned with the needs of these fledgling small business owners. By doing things like providing tax credits for hiring the first employee, making the first $25,000 in profits tax-free, simplifying tax compliance, lowering the cost of health insurance, and making investments in childcare, we can create an environment that nurtures these new small businesses and enables them to grow into the job-creating engines our communities thrive on.

Conclusion

The current tax system, including the TCJA, has failed to address the needs of small businesses. It is time for bold action to create a tax code that works for Main Street and provides the revenue required to make transformative investments in the workforce and economic opportunities. Tax policy can and should be made to help small business owners because investing in small businesses is not just about supporting individual enterprises; it is about building vibrant, thriving communities where everyone has the opportunity to participate and prosper.

Thank you for your consideration.

Walter Rowen
President
Susquehanna Glass, Co.
Columbia, PA

SMALL BUSINESS MAJORITY

STATEMENT FOR THE RECORD BEFORE THE
U.S. HOUSE COMMITTEE ON SMALL BUSINESS TAX DAY:
EXPLORING THE ADVERSE EFFECTS OF HIGH TAXES
AND A COMPLEX TAX CODE

April 10, 2024

John Arensmeyer
Founder & CEO, Small Business Majority

Dear Chairman Williams, Ranking Member Velazquez, and members of the House Committee on Small Business,

As a leading representative of America's 33 million small businesses, Small Business Majority is pleased to provide written testimony to the U.S. House Committee on Small Business regarding the importance of ensuring our tax code supports a thriving and equitable small business economy.

Small Business Majority is a national small business organization that empowers America's diverse entrepreneurs to build a thriving and equitable economy. From our nine offices across the country, we engage our network of more than 85,000 small businesses and 1,500 business and community organizations to deliver resources to entrepreneurs and advocate for public policy solutions that promote inclusive small business growth. Our work is bolstered by extensive research and deep connections with the small business community that enables us to educate stakeholders about keys issues impacting America's entrepreneurs, with a special focus on the smallest businesses and those facing systemic inequities.

For more than a decade, we have examined the reality of how taxation affects America's small businesses and have effectively advocated for policies that support a resilient, inclusive economy. Our research has combined analyses of tax policies' impacts on Main Street, along with scientific research into small business needs and attitudes.

Today's tax code is increasingly more complex for small businesses to navigate. While a cornerstone of today's Main Street tax debate centers around the expiration of the 2017 Tax Cuts and Jobs Act, and despite current inequities faced by small businesses at tax time, extending the TCJA out right will not improve tax fairness for small and microbusinesses. With certain provisions expiring at the end of 2025, we face a historic opportunity to charter innovative tax reforms that would actually deliver tax relief for America's smallest businesses.

Examining the impacts of tax disparities from the 2017 Tax Cuts and Jobs Act—a promise that failed to bolster Main Street America

The enactment of the 2017 Tax Cuts and Jobs Act (TCJA) was largely touted by lawmakers as much-needed tax relief for America's small businesses, but it has since failed to deliver on that promise and rather exacerbated opportunities for wealthier corporations to exploit our tax system.[1] A prime example of how the TCJA failed to deliver for the smallest businesses can be examined through the distribution of the Section 199A pass-through deduction. The Section 199A Qualified Business Income (QBI) Deduction allows pass-through entities to deduct up to 20% of their eligible, pass-through business income from their federal taxes. According to the latest available data, given 95% of small businesses are classified as

[1] "H.R.1 - An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018." Library of Congress. December 22, 2017. https://www.congress.gov/bill/115th-congress/house-bill/1/text.

pass-through entities, which include sole proprietorships, partnerships, LLCs, and S-Corporations, many believed the deduction would provide relief to Main Street businesses.2 However, the vast majority of pass-through deductions have been concentrated among the wealthiest corporations.

- Based on 2022 Tax Policy Center data, only 4.5% of businesses have pass-through business income taxed in the top-two brackets, and 69.2% of all pass-through income is earned by few business owners in these two rarefied brackets.[3] The disparate economic impact is even more pronounced when you factor in the higher marginal tax rates themselves.
- Most of the benefit of the pass-through deduction in the TCJA flows to the wealthiest 4% of businesses, not your typical Main Street enterprises.[4]
- The concentration of pass-through income at the top has also resulted in the concentration of deductions among higher earning individuals and businesses. Taxpayers with more than $200,000 in annual gross income (AGI) claimed more than two-thirds of 199A deductions, while taxpayers with more than $1,000,000 in AGI claimed over one-third of the deductions.[5] The financial benefits for a pass-through entity making $500,000 are 20 times higher than the benefits for a business making $75,000.
- This leaves behind America's smallest businesses and self-employed entrepreneurs, who make an average annual profit of just over $33,000.[6] Meanwhile, much larger and wealthier pass-through entities take advantage of yet another unnecessary tax cut.

Furthermore, the current tax code is characterized by a substantial gap between top individual rates and top pass-through rates, which incentivizes wealthy individuals to manipulate the system by declaring themselves as pass-through business entities. Although the law restricts certain industries from accessing the pass-through rate, there is no effective mechanism to prevent the abuse of the deduction, which we see play out in real time. Since the passage of the 2017 tax law, we have seen that the benefits continue to go directly to millionaires and billionaires, not Main Street businesses. For example, Americans for Tax Fairness found that billionaires became $2.2 trillion richer since the law was enacted; while at the same time, our federal programs supporting small businesses continue to struggle for funding following an increased demand during the COVID-19 pandemic.7 The permanency of this package, as it stands in the law, would cost American taxpayers another $3.8 trillion.8 As we look to the expiration of the TCJA and its provisions, Congress must think critically and strategically about what worked and what didn't when deciding who gets the next best tax break Washington can broker. We believe that the expiration of this sweeping legislation provides an opportunity for reform that can translate to real relief for the smallest businesses.

The forthcoming expiration of numerous provisions set in place by the 2017 tax law, including the 199A pass-through deduction, presents a critical opportunity for impactful reform that can have a significant, direct benefit to small businesses and self-employed individuals, as opposed to large businesses. Small businesses that see a benefit in this deduction simply will not receive enough savings to grow or invest back in their businesses, as their minimal profits leave them with little to nothing to reinvest.

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[2] "9 facts about pass-through businesses." Brookings Institution. May 15, 2017. https://www.brookings.edu/articles/9-facts-about-pass-through-businesses/#:~:text=Rather%2C%20most%20businesses—about%2095,partnerships%2C%20and%20S%2Dcorporations.
[3] "Sources of flow-through business income by statutory marginal tax rate; current law, 2022." Tax Policy Center. March 1, 2023. https://www.taxpolicycenter.org/model-estimates/distribution-business-income-february-2023/t23-0028-sources-flow-through-business.
[4] Ibid.
[5] "How do business owners respond to a tax cut? Examining the 199A deduction for pass-through firms." Columbia Law School. https://www.law.columbia.edu/sites/default/files/2023-03/Goodmanetal_199A_Deduction_2022.pdf.
[6] Sources of flow-through business income by statutory marginal tax rate; current law, 2022." Tax Policy Center. March 1, 2023. https://www.taxpolicycenter.org/model-estimates/distribution-business-income-february-2023/t23-0028-sources-flow-through-business.
[7] "Billionaires are $2.2 trillion richer since 2017 Trump-GOP tax law." Americans for Tax Fairness. September 28, 2023. https://americansfortaxfairness.org/billionaires-2-2-trillion-richer-since-2017-trump-gop-tax-law/.
[8] Ibid.

To ensure our tax code reflects the needs of America's smallest businesses who keep our economy running, we propose replacing the 199A deduction with a bottom-up, small business standard deduction of $25,000 so that the smallest businesses with thin margins may benefit. A bottom-up approach will allow pass-through (S-Corporations) small businesses to deduct their first $25,000 of qualifying business income (QBI), thus benefiting the vast majority of small businesses from the bottom-up rather than continuing to deploy current and unevenly distributed top-down tax breaks that only benefit a select number of the wealthiest businesses.9 This deduction should be accompanied by a phase-out for businesses with $150,000-200,000 in AGI to ensure it benefits the entities most in need.

We encourage Congress to consider this proposal, which would provide simplified and streamlined tax relief to millions of small businesses, giving them the ability to save and invest back into their businesses to grow their operations.

Small Business Majority research shows that business owners want tax fairness, not more tax breaks for larger, wealthier corporations

There is no contesting the fact that small businesses often must compete, albeit unevenly, with larger, wealthier corporations, due in part to the TCJA providing unfair loopholes for those who can afford to avert paying their fair share of taxes. In 2021, we conducted a survey to better understand the perspectives of small business owners when it comes to tax policy.[10] Our research revealed that America's small businesses strongly believe our nation's tax system favors large corporations and the wealthy over Main Street. Specifically, small businesses feel disadvantaged by loopholes that allow larger and wealthier businesses to avoid paying their share of taxes. The following are some of our research findings:

- A majority of business owners (73%) agreed that the current tax system favors big businesses over their small businesses.
- Additionally, 69% cited that offshore tax loopholes allowed bigger businesses to avert paying their fair share.
- An overwhelming 76% of respondents cited that more tax incentives for small businesses should be provided.
- Our respondents showed strong support for provisions aimed at leveling the playing field through tax reforms, such as the proposed 15% minimum tax requirement levied on the biggest corporations through the Inflation Reduction Act. In examining corporate profits, especially those made offshore, 66% of our network said they support setting a minimum tax rate of 21% on corporate offshore profits.

While small businesses make up more than 99% of all U.S. businesses and account for 44% of all U.S. economic activity, our current tax code fails to deliver tax relief for small businesses who continue to lack the resources and capital necessary to compete with larger and wealthier corporations, and who already have the upper hand.[11] [12] Similar to small businesses nationwide, 75% of the small businesses in our network have fewer than 10 employees (one-third of which are solopreneurs). These microbusinesses simply do not have the in-house capacity, tax expertise, or legal counsel to help them take advantage of tax loopholes as their larger wealthier counterparts do. Small businesses already have a difficult time competing with large ones in areas ranging from providing benefits, to accessing capital. The tax code should not work to exacerbate these inequities, but that is simply the reality we find ourselves in today.

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[9] "Qualified business income deduction." Internal Revenue Service. February 23, 2024. https://www.irs.gov/newsroom/qualified-business-income-deduction.
[10] "Small businesses share views on proposed tax reforms, workforce shortages." Small Business Majority. August 18, 2021. https://smallbusinessmajority.org/our-research/small-businesses-views-on-tax-reforms-workforce-shortages.
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Initiatives to bring parity to the tax code and recover lost revenue would greatly support our small business community

It is no secret that small business growth is thriving, with an estimated 16 million new business applications filed in the last three years alone.[13] To sustain this historic small business boom, it is paramount that federal agencies receive the proper funding and resources to carry out their mission of serving small businesses who rely on federal programs to start, scale, and improve their ventures. Recovering lost revenue from the exploitation of corporate and international tax loopholes presents an opportunity to bolster domestic federal programs that are critical to small business growth and development.

The TCJA further reduced the amount of revenue generated through taxation by creating new incentives to outsource production and jobs, cutting the tax rate in half for overseas versus domestic investments. The money that corporations are writing off in tax deductions overseas could be better spent here at home on critical programs small business owners rely on every day. A few examples of programs that could use this funding include (but are not limited to) increased lending capacity through the U.S. Small Business Administration (SBA), and the SBA's entrepreneurial development programs including Women's Business Centers and Small Business Development Centers. Other agencies that benefit small businesses have fought hard to see an increase in funding. For example, the Minority Business Development Agency, which was authorized at $110 million in the Bipartisan Infrastructure Law, has yet to be funded at that level, leaving a critical gap in support and capacity for businesses that are minority-owned and in desperate need of technical assistance.

These are simply a few examples of how additional financial support could be deployed to grow our entrepreneurial economy. Ironically, these are the very same programs that must scrape by with marginal increases in funding despite increased demand, just as Congress struggles to increase federal revenue to keep key programs afloat.

The time is now to enact systemic and impactful tax reform to uplift America's small business community

Over the last few years, small business owners have made their message clear to Congress: small businesses want a simplified and streamlined tax system that will also help level the playing with large corporations, but they got the opposite. Small businesses are the heart of our nation's economy, and a fair, equitable tax code is critical to ensuring our Main Street businesses can compete on a level playing field with their larger, wealthier counterparts.

Congress must act to not only hold wealthy corporations accountable for paying their fair share, but to deliver much needed tax relief to America's small businesses, allowing them to scale and grow their businesses. We hope that the conversation today sheds light on some of the solutions to achieving those goals to uplift our nation's smallest but most innovative job creators and economic contributors.

We thank you for the opportunity to comment on how the current tax code is impacting small businesses nationwide and look forward to working with Congress to deliver tax reform and relief to America's Main Street. For any questions or additional information, please contact Government Affairs Director, Alexis D'Amato at adamato@smallbusinessmajority.org.

Sincerely,

John C. Arensmeyer

John Arensmeyer
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