



# Roll Call

## How Tax Reform Affects Small Business

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When it comes to tax reform, the skies are safe from pies. Forget about flat tax, fair tax, tax return-on-a-postcard, value-added tax, etc. With that said, what is possible is tax reform that could encourage jobs, growth and our nation's economy. Unfortunately, while the air has been filled with conversation about tax reform for big business, too often lost in the discussion is tax reform for small businesses.

The need for tax reform for small businesses is just as great as for the Fortune 500 and just as important. Small businesses – and especially new businesses – are the lead horse when it comes to pulling the economy forward, creating new jobs and fostering innovation.

Yet far too often tax incentives leave small businesses on the outside looking in for three main reasons: 1) statutory; 2) complication; and 3) caps.

### **Statutory**

The tax code contains a host of hidden barriers to small business taking business tax incentives. For example, more than 50 percent of small businesses that are eligible for the Research and Development Tax Credit (the biggest tax credit for businesses) cannot utilize the credit because of the Alternative Minimum Tax bar. While Congress is (hopefully) going to finally remove the AMT bar for the R&D Tax Credit this year, this is only one example of scores of credits and incentives that small businesses cannot utilize because of other provisions in the tax code.

Too often, small business owners find that when it comes to tax incentives, the code giveth – and the code taketh away. Congress needs to look at eliminating the AMT and other similar roadblocks for small businesses.

### **Complication**

Drafting tax legislation is rarely pretty. One of the results of competing interests (impact on budget, policy choices) can be tax provisions that are of the hop-on-one-foot, bow-in-your-hair and wear-a-pink-dress variety.

The reality though is the more complicated the tax provision is, the more unlikely small businesses are going to benefit from it.

A classic example is the tax breaks to encourage hiring at the federal and state level. The record-keeping burden and requirements are so onerous that effectively these tax breaks end up primarily benefiting WalMart, McDonalds and other major corporations. Small businesses already face disproportionately higher costs for tax compliance – and when confronted with a tax incentive that has significant time and cost, a small business owner will often just take a pass. Tax reform must look at the burdens placed on small businesses and put in place policies that encourage small businesses to use these provisions.

### **Caps**

Congress loves to talk about how they have helped small businesses in speeches. The problem is the slip between the cup of good intentions and the lip of costs leads to congressional programs that are so limited (with caps on size and/or revenue) that the tax incentive only assists a handful of very small businesses.

An example would be the Affordable Care Act's tax credit for small businesses that provide health care to their employees. A great line for a speech – right up there with hugging puppies. Now the details: The full benefit of this credit would only go to businesses with 10 or fewer full-time equivalent employees and with average annual wages below \$25,000. The credit phased out completely for businesses with 25 or more full-time employees or average annual wages of \$50,000 (adjusted for inflation). In addition, the credit is available only to small businesses that participate in the Small Business Health Options Program and the small business must provide at least 50 percent of the cost of health care coverage for their employees. Finally, a business can only claim the credit for two years.

The reality: In talking to scores of accountants, they found that this highly touted credit was not worth the time, expense and trouble for the vast majority of their clients. Why? The caps on numbers and salaries in the provision do not reflect the reality of a significant percentage of successful small businesses in our economy. Let me be clear – this is not about the ACA. This issue of unrealistic caps on the number of employees/earnings/wages on tax incentives is in a host of different tax codes designed for “small business.” Congress needs to revisit all these caps and provide uniform definitions that reflect the economic realities of small businesses.

There is much that can be done to create a tax code that works better for small business. These commonsense, bipartisan reforms would be a good start.



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