PROSPERITY ON MAIN STREET: KEEPING TAXES LOW FOR SMALL BUSINESSES

JOINT HEARING

BEFORE THE

SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

OF THE

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

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HOUSE-SENATE JOINT HEARING PROSPERITY ON MAIN STREET: KEEPING TAXES LOW FOR SMALL BUSINESSES

TUESDAY, APRIL 8, 2025

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
and

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS &
ENTREPRENEURSHIP,
Washington, DC.

The Joint Committees met, pursuant to notice, at 10:05 a.m., in Room 210, U.S. Capitol Visitor Center, Hon. Roger Williams [chairman of the Committee on Small Business] presiding.

Present: Representatives Williams, Stauber, Meuser, Van Duyne, Ellzey, Alford, Wied, Downing, Schmidt, Velázquez, McGarvey, Scholten, McIver, Cisneros, Morrison, Latimer, Tran, Simon, Olszewski, Conaway, and Goodlander.

Senators Ernst, Young, Hawley, Husted, Markey, Booker, Justice, and Hirono.

Chairman WILLIAMS. I would like to say good morning to everyone. And as we get started with it, I will lead us in prayer and then Senator Ernst will lead us in the Pledge of Allegiance, so can you stand, please? Bow your heads.

Heavenly Father, God of all people, thank you for allowing us to meet today and discuss great things in this country and to do as good a job as we can do under your leadership.

We appreciate the opportunity to serve you and to serve this great institution. In your name we pray, Amen.

Senator ERNST. Please remain standing and recite the pledge.

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. Good morning, everyone, and I ask unanimous consent to hold today's joint hearing before the House Committee on Small Business and the Senate Committee on Small Business and Entrepreneurship. Without objection, so moved. I now call the joint hearing before the House and Senate Committees 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. I want to thank our witnesses for being here today. Many of you have traveled a long way to share your experiences and perspectives and we deeply value your time and your voice.

Additionally, I would like to take a moment to welcome our colleagues from the Senate. Both chambers of Congress coming together to conduct this joint hearing underscores the importance of today's topic. Keeping taxes low for small businesses. Extending small business tax cuts will drive growth on Main Street America.

Today's hearing will focus on the importance of making the Tax Cuts and Jobs Act of 2017 permanent to continue to enable main street to thrive by providing much-needed tax breaks to small businesses.

As the nation continues to recover from the Biden administration's disastrous economic policies, this hearing could not come at a more important time. Small businesses are the engine of the American economy. In order to excel, they need to be able to put their hard-earned money back into their businesses instead of forking it over to the federal government. This is especially true when those tax dollars fund and anti-small business government like that of Joe Biden over and over again. This committee had heard how the Biden administration's policies have negatively impacted main street.

Last Congress, a small oil and gas operator testified that the Biden administration was trying to ruin their industry financially. Can you imagine that? Your tax dollars going towards the salaries of bureaucrats only for them to tell you that they want you to lose your life's work.

For the sake of small business owners and entrepreneurs across the nation, we re-elected President Trump. Under his leadership Main Street America is more hopeful than ever and President Trump's 2017 TCJA was the most significant tax system overhaul since 1986,

These tax cuts brought rapid growth in job creation, U.S. GDP, and domestic investment. Many of the tax cuts in the TCJA are set to expire at the end of this year. This would devastate small business and the U.S. economy at large.

Making the provisions that benefit small businesses permanent is critical in sustaining economic growth and fostering an environment where small businesses can succeed.

Just last week, a small business owner testified before the House committee that the TCJA saves his business $11,000 last year allowing him to reinvest those funds back into his business. This is just one example of why we need to extend President Trump's 2017 tax cuts. Small businesses should enjoy a tax system that encourages their success. In turn, we will see the job creation, innovation, and economic growth and when Main Street America succeeds, the American economy succeeds.

With that, I now recognize Chair Ernst for her opening remarks.

Senator ERNST. Thank you, good morning, and thank you Chairman Williams, and I appreciate your friendship and our ability to work together on behalf of America's small business.

I am glad that we can hold this joint hearing of our two committees today to examine an issue that impacts every small business in America. Eight years ago, working alongside President Trump, Congress passed the most significant simplification of our tax code in decades, the Tax Cuts and Jobs Act of 2017, otherwise known as the TCJA.

The TCJA provided relief to every American, simplifying and reducing personal income tax and expanding important deductions used by small businesses across the country. These changes have allowed small businesses to thrive and contributed to the incredible growth we saw under President Trumps' first term, which led to strong real wage growth for workers the lowest unemployment rate in 50 years, and annual GDP growth that reached 3 percent.

These tax provisions have also allowed small business owners, including our witnesses today, to grow their businesses and reinvest in their communities and their employees.

But the reality is these gains are in jeopardy if Congress allows the TCJA to expire, and Americans would suffer the largest tax increase in history. Small business owners will be hit particularly hard if the TCJA expires as over 96 percent of small businesses are structured as pass-through entities that benefit from the qualified business income deduction and the general reductions in personal income rates.

The TCJA empowered small business owners to invest in themselves through provisions like bonus depreciation, enhanced business expensing, and the R&D deduction. More importantly, the TCJA enabled small businesses to invest more in their employees.

I have heard from small business owners all over Iowa who use that extra money to provide their workers with health insurance, parental leave, and retirement plans. I have also talked to small business owners who hired staff and expanded, but who would have to make hard decisions about who to keep if these cuts were to expire.

When I talk to Iowans back home the message is clear. They can't handle a tax hike. Workers are also concerned that if employees have to give more of their revenue to Washington, jobs and benefits will have to be cut, on top of the higher taxes they will have to pay due to the individual rate hikes. The consequences are real to workers and their families.

I also want to address a tax policy issue of particular concern to Iowans. The TCJA reduced the death tax, giving families the ability to keep their farms and businesses after a loved one's passing. This change was particularly important in my state, preventing families from being forced to sell off farms or businesses that had been theirs for generations.

The bottom line is that America's small businesses need the TCJA along with the certainty it provides. If we let the TCJA expire now, Americans and small business owners will be forced to shoulder another $4 trillion in new taxes.

When small businesses grow, the American economy grows. I strongly support making the TCJA permanent and will fight to ensure that the interests of small businesses continue to be a priority in this Congress.

I would like to thank our witnesses for being here today and I look forward to your testimony.

I yield back.

Chairman WILLIAMS. The gentlelady yields back.

And I now recognize the Ranking Member and my friend Velázquez for her opening remarks.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Throughout the past 40 years our tax code has been repeatedly adjusted to favor the wealthy and the largest corporations, funneling wealth upward and hollowing the system that built the largest middle class in world history. This time is no different.

Americans largely feel that the tax code is built in favor of the wealthy. According to a recent survey, 90 percent of small businesses agree in the belief that the tax system favors large corporations. Now, Republicans and the Trump administration are trickling down. Not only are they proposing to permanently entrench the inequality of the TCJA into our tax code, but the president just last week unilaterally enacted one of the largest middle class tax hikes in history. This will have devastating effects on the economy, particularly for small firms who operate on thin margins and don't have sophisticated supply chain management skills to navigate these complex and onerous tariffs.

These tariffs will raise prices in the midst of a cost of living crisis, lower growth, and cause layoffs and business closures across the economy. When President Biden left office the U.S. economy was in a Goldilocks zone, low unemployment, falling inflation, falling interest rates, record business creating, and stocks at all-time highs.

Many of the investments we make in infrastructure, clean energy, and reshoring domestic manufacturing were just beginning to work their way through the economy. It was the envy of the world.

Yet, in less than 3 months, President Trump has squandered that progress. In the first quarter, American stocks posted their worst performance relative to the rest of the world in 23 years. Banks and analysts are unanimously warning of a recession in the next year while inflation is already jumping and interest rate cuts are paused. This is President Trump's economy.

In a time when our nation suffers extreme levels of income and wealth inequality, the Republican plan is to continue to shift the tax burden onto the working class while lavishly cutting taxes for the top 1 percent and adding to the deficit.

But what about fiscal responsibility and cutting the deficit? Despite projections that extending the TCJA over the next decade will cost up to $4 trillion, they are using budget gimmicks to say that it costs nothing.

According to one of my Republican colleagues, this is fairy dust. I agree. Instead of cutting taxes for small firms and working families, they are proposing to cut vital resources for the most disadvantaged people. From $880 billion in cuts to the Medicaid program, which provides health care to our nation's poor, to hundreds of billions of dollars in cuts to nutrition assistance programs that help families put food on the table.

To the extent that they have tax cuts for the working class and seniors, through no tax on tips, overtime, and Social Security, I ask what good is no tax on tips if restaurant margins are erased by tariffs and they are forced to close? What good is erasing taxes on Social Security if the administration is rendered incapable of distributing benefits?

The Republican budget and the economic policies of President Trump are a disaster for our country. These policies are the exact opposite of what we need right now. They will raise costs significantly for the working class and cause main street businesses to lay off staff or close altogether.

They are spiraling our economy into recession as we speak. We can still work together to deliver genuine relief for main street. We could extend the enhanced premium tax credits to keep healthcare costs from spiking for small businesses next year. We could expand tax credit for childcare, which will grow the workforce and keep small businesses competitive.

We could reform 199(a) and ensure the bulk of benefits go to those who need it the most.

We have a duty to reject policies that deepen inequality and undermine the future of small businesses and working families. Today's hearing is an opportunity to clearly confront those dangerous choices, stand up for small businesses and fight for an economy that works for everyone, not just those at the very top.

My colleagues could stop this carnage at any time. I call on them to reclaim tariff powers along with the power of the purse and return them to Congress and work with Democrats on delivering genuine tax relief for the middle class in a fiscally responsible way.

Thank you. I yield back.

Chairman WILLIAMS. The lady yields back.

And I now recognize Ranking Member Markey for his opening remarks.

Senator MARKEY. Yes, thank you, Chairman Williams.

Less than 100 days in, this administration has only delivered pain for main street across America. Since Trump's tariff announcement last week, the stock market has lost trillions of dollars and analysts and JPMorgan say it is likely the United States will enter a recession this year.

The Commerce Secretary Howard Lutnick said that going through a recession would be, quote, " worth it." Small Business Administrator Loeffler called Trump's tariffs, "salvation"—for small businesses.

Donald Trump posted on Truth Social over the weekend that big business is not worried about tariffs. Meanwhile, small businesses are calling Trump's tariffs salt in the wound that is just now beginning to heal.

As a result of these tariffs, small businesses like Clem's General Store in Spencer, Massachusetts, is having to consider hiring freezes or scaling back the store's selections. These reckless tariffs and the impending retaliation will ruin many small businesses.

97 percent of exporters and importers in the United States are small or medium-sized businesses. They do not have the ability to absorb the increased supply chain costs leading to thinner profit margins, forced closures, mass layoffs, and increased costs for customers.

Small businesses are having Pepto Bismol moments in the marketplace. They are just holding their stomachs every single day as they see all of this turmoil and uncertainty be introduced into a marketplace.

And it is estimated that American households will pay an additional $3,400 in costs. Small businesses in their communities cannot afford this. And it is clear who this administration serves, and it is not small businesses or working people.

The budget resolution passed by the Senate this weekend lays out a plan that would send trillions more in tax breaks to big corporations and the wealthiest in our society, all at the expense of essential programs like Medicaid and SNAP and investments in NIH to find the cure for Alzheimer's and cancer and diabetes, but that millions of hardworking Americans are looking to protect their families. And that is unacceptable.

The wealthy do not need another tax giveaway. The top 1 percent of the wealthiest households hold one-third of all of the wealth in this country. The three wealthiest men in America, who sat right behind Donald Trump at the Inauguration, Elon Musk, Jeff Bezos, and Mark Zuckerberg, their net worth of those three people is equal to the bottom 50 percent of our entire population combined. And they are going to get massive tax breaks under this legislation? That is just crazy.

These three people are absolutely not deserving of another tax break. And that is what the Republicans are doing. Their proposed tax policies would supercharge wealth inequality in our society.

Even the Republican's so-called small business tax deduction, Section 199(a), does not primarily help true small businesses. Instead, the vast majority of these tax breaks of what government would spend on this deduction goes to the highest earners.

I would support a provision if it was tailored to true small businesses. In fact, according to a 2023 report by the nonpartisan Joint Committee on Taxation, 55 percent of the Section 199(a) benefits go to the top 1 percentile in our country. Those aren't small business people. The upper 1 percentile are not by definition small businesses. They get 55 percent of the tax break in, quote/unquote, " the small business tax break" that the Republicans want to put extended into this whole process.

We need a small business policy that benefits true small businesses, not the $5.8 trillion in the tax giveaway which they are planning on continuing and putting on the books. We need tax breaks for working families. We need childcare tax breaks. We need to protect Medicaid. We need real tax reform in this country that will propel our economy, not this drain on the limited revenues we have in the country to send more to the upper 1 percentile. That is not the problem in our society right now.

I look forward to this hearing and it just feels great to be back here in the House of Representatives where I served for 36 years. And I just love this institution.

And I yield back.

Chairman WILLIAMS. The gentleman yields back.

And I now will introduce our witnesses. Our first witness here with us today is Mr. Tom Click. Mr. Click is the president and chief executive officer and co-founder of Patriot Industries in Louisa, Virginia. And Mr. Click and his wife Sarah founded Patriot Industries in 2010. Prior to that, Mr. Click spent 10 years in the metals industry and most recently as vice president of market development for Norsk Hydro Aluminum and previously as vice president of Marketing and Product Development for Indalex Aluminum.

Before entering the metals industry, Mr. Click managed the product management and engineering departments for the Amerock Division of Newell Rubbermaid. Mr. Click is an advisory board member of the GENEDGE Alliance and a member of the Virginia Growth and Opportunity Foundation.

Mr. Click holds a Master's of business administration from the Gatton College of Business in economics and a Bachelor of business administration from the University of Kentucky. We appreciate you being here today and your wife.

Our next witness with us today is Mr. Preston Brashers. Mr. Brashers is a research fellow in the Heritage Foundation's Grover M. Hermann Center for the Federal Budget in Washington, D.C.

Mr. Brashers has been with the Heritage Foundation since 2021. Prior to that, Mr. Brashers was a tax policy specialist in the research and fiscal analysis division of the Washington State Department of Revenue and a transfer and pricing manager at PricewaterhouseCoopers. He also contributed to the analysis for the Heritage Foundation's budget blueprint for fiscal year 2023 and the budget blueprint for fiscal year 2022.

Mr. Brashers holds a Ph.D. and Master of Science in economics from the University of Kentucky.

Did you all know each other in school? Same?

And earned a Bachelor of Science in economics from the University of Washington. I want to thank you for joining with us today.

Now, it is my honor to yield to Chair Ernst to introduce our next witness.

Senator ERNST. Thank you, Mr. Chair.

And I am pleased to have a fellow Iowan with us today. Mr. Jerry Akers is the president of Sharpness, Inc. and MOCA, Inc., and is from Palo, Iowa. Mr. Akers started his journey as a Great Clips franchisee and with the help of his two daughters and son-in-law he now operates more than 40 franchises across three different businesses in both Iowa and in Nebraska.

He holds a Bachelor's degree from Upper Iowa University, the Peacocks right? That is right. The Fighting Peacocks. Again, thank you for taking the time and making the trip to Washington, D.C. to share with this committee your perspective on the Tax Cuts and Jobs Act. And thanks to your family as well.

Mr. Akers has a fantastic family and I hope to hear about their experience with your business as well.

Thank you and I yield back, Mr. Chair.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize the Ranking Member from New York, Ms. Velázquez, to introduce our last witness appearing before us today.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Our final witness today is Ms. Anne Zimmerman, the Founder and Owner of Zimmerman & Co CPAs, Inc., a public accounting firm with offices in Cincinnati and Cleveland. Since the mid-1980s she has provided financial and tax services to small businesses and individuals and acts as the off-site CFO for many businesses.

She also co-founded and sold a number of businesses, including a large IT cloud company in 2017. She is currently a Co-Chair of

Small Business for America's Future, a small business advocacy organization that helps to ensure policymakers prioritize main street by advancing jobs and equitable economic framework that works for small business owners, their employees, and their communities.

She holds degrees in both business management and accounting from the University of Cincinnati and Northern Kentucky University. Thank you for being here this morning.

Chairman WILLIAMS. The gentlelady yields back.

And I want to thank all of you myself for being here today. And before recognizing the witnesses I would like to remind them that their oral testimony is restricted to 5 minutes in length.

If you see the light in front of you turn red it means that your 5 minutes is up and concluded and you should wrap up your testimony. If you get around 5 minutes and hear this, you need to stop. Okay?

And with that, I now recognize Mr. Click for his 5-minute opening remarks.

STATEMENTS OF TOM CLICK, PRESIDENT, CHIEF EXECUTIVE OFFICER, AND CO-FOUNDER, PATRIOT INDUSTRIES; PRESTON BRASHERS, RESEARCH FELLOW, TAX POLICY, THE HERITAGE FOUNDATION; JERRY AKERS, PRESIDENT, SHARPNESS INC. AND MOCA INC.; AND ANNA ZIMMERMAN, FOUNDER & OWNER, ZIMMERMAN & CO CPAS INC.

TESTIMONY OF TOM CLICK, PRESIDENT, CEO AND CO-FOUNDER, PATRIOT INDUSTRIES

Mr. CLICK. Chairwoman Ernst, Chairman Williams, and distinguished Members of the Senate Committee on Small Business and Entrepreneurship and the House Committee on Small business, thank you for the opportunity to provide testimony on the importance of permanently extending provisions of the Tax Cuts and Jobs Act, TCJA, benefitting privately owned businesses like Patriot Industries and our employees.

Since the passage of the 2017 Tax Cuts and Jobs Act, our investments in equipment and workers have increased, fueling economic growth at Patriot. If Congress does not act this year, both our business and our employees will be hit with a massive tax hike.

Furthermore, without the extension of Section 199(a), businesses like Patriot are at risk of falling victim to the ongoing consolidation of economic power that is shifting control away from America's main street and further into the hands of a few dominant and oftentimes foreign-owned corporations.

My wife Sarah, who is with me here today, and I started Patriot in 2010 with 1,000 square feet of space and one manual conduit threading machine that I purchased on eBay for $5,000. Like so many small businesses in America, we encountered both triumphs and setbacks along the way.

In addition to navigating complex tax policies, burdensome regulations, and the high cost of compliance, I faced a life-threatening illness. If it weren't for our entire work family pulling together during that difficult time, Patriot might not have survived.

Thankfully, I recovered and together we built a company that epitomizes the American Dream. Today, in 2025, Patriot has three

USA-based factories totaling 140,000 square feet and we employ nearly 100 work family team members and we pay our bills on time.

While Patriot is successful today, our humble beginnings remind me of how fragile small businesses can be. The 2017 Tax Cuts and Jobs Act was a game changer. It reduced financial roadblocks for small businesses like ours, allowing us to reinvest, expand, and create more jobs.

One of the most impactful provisions was the 20 percent deduction for small businesses which gave pass-through entities like ours the ability to grow at a faster pace and compete on a level playing field with larger corporations.

Additionally, the expansion of immediate expensing laws allowed us to write off the full cost of purchasing new equipment rather than depreciating it over decades. This change was critical for manufacturing companies like ours, which rely on high-cost machinery.

Since 2017, we have invested nearly $4 million in advanced manufacturing equipment. If the law reverts to the old system business expansion will slow and small companies like ours will be forced to delay investments that drive innovation and job creation.

Beyond the business benefits, lowering income tax rates across the board meant that every worker kept more of their hard-earned money. The expansion of the child tax credit and the doubling of the standard deduction provided additional relief for working families, allowing them to save more and invest in their futures.

If these tax cuts expire our employees will face a direct pay cut through higher taxes, making it harder for them to afford necessities and plan for their financial security.

Beyond immediate tax relief, another critical reason Congress must act now is to prevent the devastating impact of the estate tax, or as many call it, the death tax. Personally, I would like to reframe it as the survivor's tax since the people who actually have to pay it are the spouses and their children.

Some believe the estate tax is a well-deserved tax on the rich. In reality, it punishes family-owned businesses at the exact moment the company is being passed to the next generation.

At Patriot we have spent years growing our company, reinvesting in equipment, expanding operations, and creating jobs. But if I were to pass away unexpectedly, the federal government could demand a 40 percent survivor's tax on the business our family has spent our lives building.

To meet that burden, my family might be forced to lay off workers or even sell the business entirely. The real danger comes from how the estate tax applies to non-liquid assets. Patriot maintains over $10 million in inventory across 11 states to mee the needs of our customers. This inventory along with the heavy equipment we use is considered part of the business' valuation when calculating the estate tax.

Unlike large corporations with massive cash reserves, small businesses like ours don't have that kind of liquid case available. The estate tax could easily cripple our ability to keep Patriot in the family.

To plan for pain, the 40 percent survivor's tax, family businesses must divert money away from hiring, expansion, and innovation and instead use it on attorneys, consultants, and insurance policies, which will ironically be valued as part of the estate that is being taxed.

Estate planning should be a part of every company's long-term strategy, not decided by a black swan event. I have seen firsthand the benefits of the TCJA for our family business and work family team. I urge Congress to permanently extend these provisions as well as further reforms, such as the repeal of the estate tax to support family businesses like Patriot Industries, which are the backbone of our economy.

Thank you for the opportunity to share my perspective and I look forward to the discussion here today. God bless you and God bless America.

Chairman WILLIAMS. the gentleman yields back right on time.

I now recognize Mr. Brashers for his 5-minute opening remarks.

TESTIMONY OF PRESTON M. BRASHERS, RESEARCH FELLOW ON TAX POLICY, THE HERITAGE FOUNDATION

Mr. BRASHERS. Chairman Williams, Chairwoman Ernst, Ranking Member Velázquez, Ranking Member Markey, and Members of the committees, thank you for giving me the opportunity to testify today.

My name is Preston Brashers. I am a research fellow for tax policy at the Heritage Foundation in the Grover M. Hermann Center for the Federal Budget. The views I express in this testimony are my own and should not be construed as representing any official position of the Heritage Foundation.

It is fitting that the title of today's hearing says, " Keeping Taxes Low for Small Businesses," as opposed to cutting taxes. Some have mischaracterized what is at stake here.

The small business tax provisions from the Tax Cuts and Jobs Act have been in place for nearly 8 years and if Congress allows them to lapse, then American entrepreneurs and small businesses would face a tax hike of more than a trillion dollars over the next decade. So, it is worth emphasizing that this is not about cutting taxes. It is about avoiding an enormous tax hike.

Indeed, most small business owners would probably reject the notion that their taxes are low in the first place. TCJA included more than just tax cuts but also structural reforms, simplifications, and base-broadening revenue raisers. In addition to some permanent changes, TCJA temporarily suspended certain flawed elements of the tax code that had punished business owners and entrepreneurs who choose to invest in their workers and in the American economy.

Those expiring provisions will be the focus of my testimony today. TCJA addressed some of the more egregious problems that existed in the tax code until 2017. For example, it makes no sense to tax income from business investments before a business has actually earned that income, but that is effectively what happens when the tax system forces businesses to capitalize and depreciate such business expenses over many years or decades instead of allowing them to deduct those costs when determining their current taxable income.

To address that problem, TCJA implemented full and immediate expensing for capital equipment and machinery. For 5 years between 2018 and 2022, the tax treatment for these formerly depreciable capital assets was corrected but, unfortunately, full and immediate expensing, also known as bonus depreciation, is now gradually sunsetting.

One of Congress' top priorities should be to lock in full and immediate expensing not just for another few years but permanently.

Similarly, Congress should address one of the unfortunate compromises of TCJA, the 5-year amortization of research and experimental costs. That provision is structured in a way that delays to a later year 90 percent of the value of deductions for expenses related to research and experimental activities, including employee compensation costs, material and supply costs, costs of obtaining a patent and certain operations, management, and travel costs.

The resulting short-term financial hit from this artificially accelerated tax liability can be severe for startup companies with limited cash flow and limited access to capital markets.

TCJA also expanded death tax exemptions, helping to shield family farms and businesses from a devastating 40 percent federal tax on assets passed down to family members. Allowing the death tax exemption to be cut in half, which will happen if TCJA expires, could be the death knell for some asset rich but cash poor small and mid-sized family businesses.

Finally, no other expiring provision in TCJA had a larger impact on the amount of taxes paid by entrepreneurs and small business owners than the 20 percent pass-through deduction, known as Section 199(a). While some reforms or improvements to the design of 199(a) are certainly possible, simply letting the provision lapse would be unthinkable to millions of American business proprietors who claim the deduction.

Collectively, the expiring TCJA provisions benefiting small businesses were an indispensable part of the 2017 legislation's success. If lawmakers want to revitalize the economy and ensure that American small business owners and entrepreneurs can thrive, then extending these provisions should be a top priority.

Lawmakers could multiply the economic growth associated with these small business-related provisions by ensuring that they are made permanent. Congress also has the opportunity to build on TCJA's success for small businesses by expanding and improving on expensing provisions in the bill, for example, by mitigating the harmful phaseout of the Section 179 small business expensing deduction.

Thank you.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Mr. Akers for his 5-minute opening remarks.

TESTIMONY OF JERRY AKERS, PRESIDENT, SHARPNESS, INC., AND MOCA, INC., ON BEHALF OF INTERNATIONAL FRANCHISE ASSOCIATION

Mr. AKERS. Good morning, Chair Williams and Ernst, Ranking Members Velázquez and Markey, and distinguished Members of the committee. My name is Jerry Akers, and I am a franchisee business owner of Great Clips and the Joint Chiropractic. I own and operate with my wife Nikki and two daughters Sam and Shelly 32 Great Clips and four of the Joint Chiropractic locations in my home state of Iowa, as well as Nebraska. I am also a co-author of a bestselling book, " Live It to Own It." It is a franchise bootstrap guide book leading to the formation of Z-Dynamics which is tasked with paving the way to success for franchise business owners.

I appreciate the invitation to appear before this committee to share my story of small business ownership and discuss the views of local business owners everywhere as it relates to tax policies that support business, our workforce, and our local economies.

I have experienced firsthand the remarkable impact that franchise businesses can have on local economies and communities, job creation, and economic growth. My wife and I have created a community of our own employing over 250 team members that have been part of our system over the past several years.

These team members are treated as an extension of our family and receive industry-leading wages and Fortune 500 benefits while working for a small franchise organization. Much of our continued success in our business and team members is in part due to the many important provisions of the Tax Cuts and Jobs Act.

Many of the individual and small business provisions are expiring at the end of this year and are critical to locally-owned franchise businesses. I appreciate the urgency with which Congress is seeking to address these as the uncertainty created by their looming expiration is giving small business pause as they make investment decisions that will allow them to grow and create jobs.

First, much like the rest of the small business owners, the 199(a) tax deduction for qualified businesses' income has been an important lifeline. It has enabled me and almost all franchisees to increase investment in business driving growth and innovation, while the extra financial breathing room has allowed us to hire more employees and provide better benefits to existing team members.

More importantly, this deduction has helped level the playing field allowing businesses like mine to compete with larger corporations and provide a level of financial stability that has been valuable.

The thought of these hard-earned gains being jeopardized is deeply unsettling. It is not just about numbers. It is about the livelihoods of families, the vitality of communities, and the spirit of entrepreneurship.

The TCJA also allows businesses to immediately write off 100 percent of the cost of capital investments in qualified property. For our business, the influx of cash flow is crucial for reinvestment, remodeling, and expansion, and managing operational cost.

Unfortunately, bonus depreciation has already begun to phase out. It stands at 40 percent for this year and it will be phased out entirely in 2027 absent congressional action. While the bonus depreciation provision provided a substantial boost to small business, its phase down creates a growing concern about increased tax burdens and potential disincentives for investment.

Third, TCJA allowed an increase in the estate tax exemption to $11 million throughout the end of this year. This provision is critical to allowing family businesses like mine to be passed down to the next generation without selling or taking on crushing debt.

This is very personal to me. Our daughters are minority partners at this time in our Great Clips location and will eventually own 100 percent of that business. Whether or not they do and that generational transfer can happen, hopefully, will happen here in Congress and may well depend on what Congress does as it acts.

Other provisions like the business interest deductibility has been crucial for the franchise community. Prior to 2022, business expense deductions were limited by Section 1630(j) to 30 percent of their earnings before interest, tax, depreciation, and amortization, or IBITDA. Interest deductions are now limited to stricter limitation.

This change combined with rising interest rates is proving to make incremental investments by small businesses much more expensive. On average, a business affected by the change could see a threefold increase in its incremental tax burden, facing both higher interest rates and financing improvements and a very high tax rate.

The truth is for many small business owners like me, the TCJA provisions have been a lifeline. It has provided a sense of stability allowing me to reinvest in my business, hire new employes and provide better benefits and weather economic fluctuations.

The prospect of losing that feels like a rug being pulled out from under me. In the already volatile economic climate, the added layer of tax uncertainty creates a sense of anxiety, especially for those who operate on tight margins.

Small businesses are accustomed to taking risk but the threat of a significantly higher tax burden feels like an unfair and unpredictable obstacle in franchising and all small businesses.

I am ready to be a resource for this effort and I thank you again for the opportunity to testify. I am happy to answer any questions.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Ms. Zimmerman for her 5-minute opening remarks.

TESTIMONY OF ANNE ZIMMERMAN, FOUNDER AND OWNER, ZIMMERMAN & CO CPAS, INC., SMALL BUSINESS FOR AMERICA'S FUTURE

Ms. ZIMMERMAN. Chairman, Ranking Member, and distinguished committee Members, thank you for this opportunity to testify today. I am Anne Zimmerman, president and CEO of Zimmerman & Co CPAs and Co-Chair of Small Business for America's Future, a national coalition of small business owners and leaders.

As a tax professional serving the small business community and a small business owner myself, I bring a dual perspective to this discussion. I see firsthand how the tax code impacts our ability to form, grow, and compete in a marketplace increasingly dominated by large corporations.

Small businesses are the backbone of our economy representing 99.9 percent of all U.S. firms, employing nearly half of private sectors workers, and contributing 43.5 percent of GDP. Today, these businesses face challenges amid mounting economic uncertainty. The NFIB Small Business Confidence Index shows confidence falling sharply in Q1 2025, largely due to unpredictable tariffs and global trade tensions that have sent markets tumbling, creating fear and uncertainty for planning.

A recent survey of our network shows 51 percent of respondents have postponed expansion and hiring until policies stabilize. At this moment of vulnerability, we need a tax code that provides stability and supports our success.

As we approach the expiration of TCJA provisions we must honestly evaluate whether they have delivered on their promises. The evidence clearly shows that for most small businesses they have not.

The Congressional Research Service found that Section 199(a)'s benefits area skewed. Over half the total dollars went to business owners with incomes above $500,000 who represent less than 5 percent of eligible taxpayers.

I see this inequality daily in my practice. I recently prepared a return for a restaurant owner who employs 11 people. He received just $700 in savings from 199(a), hardly transformative for his business.

The same day I prepared a return for someone with over $4 million in income who received $6,700 for the same deduction simply because of his investments in real estate partnerships. He employs no one.

A survey of small business owners in our network confirms these aren't isolated cases. Only 6 percent increased business investment or raised wages and 3 percent hired more employees. Most telling, 43 percent reported no positive impact at all.

So instead of simply extending TCJA provisions that help some but left most behind, here are some solutions that Congress should implement to help Main Stret. Exempt the first $25,000 of small business profit from federal income tax to deliver immediate relief to entrepreneurs in critical early years.

Simplify the tax code to remove the financial burden that creates a competitive disadvantage.

Create a small business standard deduction to reduce compliance costs for early stage businesses.

Establish a tax credit for hiring first employees to help entrepreneurs make the crucial leap to employer status.

Look for responsible ways to pay for tax reform that level the playing field for small business without slashing valuable programs like Medicare, Medicaid, and Social Security.

Increasing the corporate tax rate from 21 percent to 28 percent would ensure corporations pay their fair share while generating substantial revenue.

Close unfair loopholes that disadvantage small businesses. Eliminating just the roundtripping loophole alone would generate nearly $70 billion over 10 years for deficit reduction, healthcare costs, or small business support.

Continue IRS service improvement and modernization plans. This is crucial. The IRS was able to collect more than $1.1 billion in unpaid tax debts from the top 1 percent in 2024, up from just $38 million a year prior.

Ensuring wealthy individuals and large corporations pay their fair share generates significant revenue to help our communities.

The expiration of the TCJA presents a rare opportunity to create a tax code that truly supports all American small businesses and we should seize it.

Thank you.

Chairman WILLIAMS. The gentlelady yields back.

And we will now move to the Member questions under the 5-minute rule.

I recognize myself for 5 minutes. Mr. Click, in your testimony you talk about the importance of reinvesting in your business with the money you save with the small business pass-through deduction. This critical provision, Section 199(a), leveled the playing field for small businesses and fueled their growth.

So the question is, if this provision expired how would it limit your ability to reinvest and grow your business?

Mr. CLICK. Without equipment we would grow slower. We would still be methodical. We would still invest in the company but being able to expense everything in the first year makes it a lot easier to accelerate your plans. So, our 10-year plan might become a 7-year plan, a 5-year plan.

Chairman WILLIAMS. Thank you.

Mr. Brashers, the 2017 Trump tax cuts allowed small businesses to immediately expense research and development costs which incentivized innovation in the defense industry tremendously. That provision expired in 2022 and here we are a few years later while China and other foreign adversaries are taking advantage and are offering a 200 percent tax credit for the same research and development. So, wouldn't you agree that this has put our national security at risk?

Mr. BRASHERS. I think the research and development amortization is a bad policy to have 90 percent of the deduction pushed off after the first year. I think it is especially harmful to small businesses. But, as you say, to any company that is doing research and development it is going to have harmful effects.

Chairman WILLIAMS. You know, in terms of U.S. global competitiveness and American security what will the future look like if Congress fails to reinstate immediate R&D expensing?

Mr. BRASHERS. I think you are certainly going to see if R&D [expensing] is extended and brought back, because it has expired at this point, I think that will boost the amount of research and development that is happening. I think it is going to be dollar for dollar perhaps the biggest bang for the buck in this package of tax provisions.

It is just a very high priority for so many businesses and that it just makes no sense for the tax code to penalize companies for engaging in research and development activities that are going to benefit not just them but their employees and the American economy and others that are going to be able to benefit from those innovations that they come up with. So, I think it is critical.

Chairman WILLIAMS. Mr. Akers, as a franchise owner, which I am also a franchise owner, you know how important it is that your equipment and machinery is up to date. You want to be able to deliver and provide the product for your customers but this investment comes at a cost and that is why Congress included a 100 percent bonus depreciation, which we have talked about this morning, in the TCJA.

However, that provision that we talked has already begun to phase out, so what did this provision help you buy the tools and equipment needed to make your business a success and give customers the service?

Mr. AKERS. Thank you for the question. The bottom line is when you are in a retail-oriented business you have got to be at the top of your game. You have got to be able to have new equipment. You have got to have equipment that is cutting edge. You have got to have things that make an impression.

You simply cannot do that if you are held back by not being able to deduct that at the right time. If it is spread over several years we are going to delay those improvements.

By the way, that also impacts our throughput which means it hurts employment because we don't need as many employees if we can't be on top of it.

Chairman WILLIAMS. Well, if you get a chance to write it off it opens up more cash to buy something else, right, and——

Mr. AKERS. Absolutely and that many times goes back to employees, whether it is increased benefits or increased wages. Because we have got X amount of money to spend we have got to decide where to do it. If we are paying it in, you know, longer deductions it is going to be hard to spend that on the employees.

Chairman WILLIAMS. I yield back.

And I now recognize Chair Ernst for 5 minutes of her questioning.

Senator ERNST. Yes. Thank you, Chairman Williams.

Mr. Akers, again, thanks for making the trip out here to Washington, D.C. and for representing Iowa small business.

As you know, the TCJA provided significantly higher exclusions from the estate tax for families dealing with the death of a loved one. This is an issue that impacts our farmers, business owners, and capital-intensive industries and owners like yourself who have built a successful enterprise that your family helps to operate today. Personally, I support an end to the death tax altogether.

That said, can you discuss how important the estate tax changes from the TCJA are for you and your family, your daughters and son-in-law, and what you have had to do in anticipation of losing the higher exemptions under the TCJA?

Mr. AKERS. The bottom line is we are stimulating the economy by hiring really smart CPAs and attorneys to try and figure out a way to do this without letting our daughters lose it.

I am very passionate about this. I am a farm boy from Iowa that comes from very little, and we have built up a really good business over the years with one intention and that has to have something to pass down to the next generation.

That is going to happen. The only question is what will Congress do to help allow us to make that happen without the kids taking on multi-millions of dollars in unnecessary loans.

Senator ERNST. Yes, thank you, Jerry.

And, Mr. Click, as well, can you answer that? Do you have any concerns about the estate tax and how that will affect your family?

Mr. CLICK. Yes, absolutely. We do have a plan in place but just removing the estate tax, the survivor's tax, would give me a lot more peace of mind.

Senator ERNST. Yes, thank you.

Mr. CLICK. We have three children just now coming into a phase of their lives where they might be interested in the business.

Senator ERNST. We hope they are.

Mr. CLICK. I do.

Senator ERNST. And, Mr. Click, again, thanks for being here today as well. The changes to bonus depreciation and immediate expensing in the TCJA were transformative and nearly every Iowa-based manufacturer I have spoken to has made it clear how important it is to them in ensuring they can maintain and expand their operations.

So, can you give a little more detail to that and why bonus depreciation and immediate expensing are so important to our small businesses in capital-intensive industries like manufacturing equipment?

Mr. CLICK. Yes. The equipment is very expensive. It is something that is a great asset for many, many years but it does wear out over time and you need to replace it. You need to repair it.

And if you are a business like Patriot where you are intent on expanding, new locations require a completely new set of equipment.

Our most recent factory was created down in Houston, Texas. It was about a $2 million investment. Most of that is four Haas CNC Machine Centers, sorry, five Haas CNC Machine Centers and all the other support equipment that goes with that. Being able to deduct that immediately makes it a lot easier for us to look for the next location.

Senator ERNST. Yes, 2 million bucks. That is pretty hefty for small business so——

Mr. CLICK. That is a good value. That is a good value.

Senator ERNST. Yes, absolutely.

Mr. Akers and Mr. Click, as our small business witnesses here I want to know how you and your staff will be affected if the TCJA is not extended? What are the one or two things you will have to do to keep your businesses afloat, and what does that mean for your workers?

And, Jerry, we will start with you, please.

Mr. AKERS. Yes. As I mentioned before, there is a limited amount of money to go around in a small business like ours so we have to make decisions about it if this is not put back in place, frankly, that money will end up coming from our employees at some point in time in only that it will slow down the improvements in wages and it will slow down the improvements in benefits

So again, we want to be able to do both. We want to be able to continue to modernize and grow and expand and then take care of our employees, but we cannot do both without the help of the TCJA.

Senator ERNST. Thank you.

And, Mr. Click?

Mr. CLICK. Yes. The tax hike on them personally is probably the first thing that everybody is going to feel but it will slow down the acceleration of the business. And over the years we have added benefits. When we started we had no health insurance. We had no 401(k). We have both of those now.

We have funds set aside for the employees. We pay bonuses every year. There is only one pot of money for this and this is a component that will help make sure that we manage that pot of money appropriately and for the employees and for the work family and for the company.

Senator ERNST. And thank you both.

And, Mr. Chair, I just want to note that both of them have responded that much of the return that they get from the TCJA they are rolling right back into their employees, whether it is wages, benefits, bonuses.

So, thank you both for representing our small businesses today, and I yield back.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Ranking Member Velázquez for 5 minutes.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Ms. Zimmerman, the president just unilaterally enacted significant tariffs on virtually every country except Russia. Can you discuss the biggest economic policy blunder in the past century and explain how this will disproportionately harm small businesses?

Ms. ZIMMERMAN. Thank you. Absolutely. The small business uncertainty index is higher than it has been, I think the second highest ever, even higher than COVID right now. The uncertainty is killing small businesses. They can't plan. They don't know if they are going to open a new one.

And I spoke just recently with the gentleman that owns a coffee shop out west and he was already $50,000 into opening his second location and he is having to put that on hold simply because of the tariffs that have been enacted. He is going to pay it on everything that comes in. He can't negotiate.

We as small business, truly small businesses, don't have the negotiating power that a large business has, so for his situation Starbucks can go to their suppliers and say I am 50 percent of what you sell. And they can negotiate. They are not going to get the whole cost of that.

But then there is a watershed effect that comes down that we as the small businesses are going to pay even more of it because the suppliers have to make it up.

Ms. VELÁZQUEZ. Thank you. This is just the beginning. Without the tariffs even in effect the Atlanta Fed has dropped the realtime GDP estimate for the first quarter to -3.7 percent. Consumer sentiment has crashed to the lowest level in years and inflation expectations are higher than they ever were throughout the Biden administration.

People understand this will be catastrophic. The share of consumers expecting higher unemployment over the next year is the highest since 2009, and these were all measures taken before Trump's tariff announcement.

Ms. Zimmerman, so many Americans feel that the game is rigged and small businesses agree. According to your group's survey, 90 percent of small businesses think the tax code favors large corporations.

Based on your conversations with small businesses, what makes them feel this way?

Ms. ZIMMERMAN. Well, they don't get—a true small business isn't really truly on a level playing field, so yes, bonus depreciation may be great but we already have 179 that up to $1.2 million you already got to write that off.

So, the small businesses I know generally don't buy more than $1.2 million in equipment each year. That is a large one. I mean, there are some very successful business people here but 90 percent, I believe it is, or 75 percent of the small businesses in this country make 75,000 or less.

The million dollars is not what they are worried about. Surviving, having an employee, being a part of their community, we as the true main street people can't separate community from employees from our business.

Ms. VELÁZQUEZ. You know, I find it astonishing that my colleagues act as if the pass-through deduction is the be-all and end-all of small business tax cuts. Sure, everyone who can navigate its complexity gets a little something but with over half of the total benefit going to the top 1 percent we need to seriously consider reform before we can move forward responsively.

Ms. Zimmerman, on top of the tax code that favors the wealthy, Republicans are proposing steep regressive tariffs and a new tax cut for the rich paid for by gutting Medicaid by $80 billion, education by over $300 billion, and nutrition programs by over $200 billion. The goal seems to be funneling wealth upwards from the middle class to the rich. What impacts do you think this will have on small businesses on the trust of our institutions?

Ms. ZIMMERMAN. An absolutely devastating impact.

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

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Ranking Member Markey for 5 minutes.

Senator MARKEY. Thank you, Mr. Chairman. The announcement of President Trump's new tariffs should actually be called obliteration day instead of liberation day. Liberation day for Trump is taking us back to the days of Smoot-Hawley, Herbert Hoover, and the eve of the Great Depression.

Foreign countries have already started retaliating with no end game in sight. He is making it up as he goes along. And Trump's reckless actions will raise costs for small businesses and working families.

We have already heard from small businesses across the country concerned about how they will weather the impacts from Trump's trade war. For example, in Massachusetts, a small business in the hospitality industry told my office that their suppliers, which include local restaurants, grocers, and other small businesses, have already raised their prices just with the threat of a tariff war.

So, Ms. Zimmerman, how will tariffs hurt small businesses, including the ones that you work with?

Ms. ZIMMERMAN. It puts them at a great disadvantage. As I said earlier, we don't have the negotiating ability and the negotiating power. We also have thinner margins and so the tariffs are harder for the smaller businesses to take.

And the economic uncertainty, I mean, they are on one day, they are off one day, they are on one day. You know, somebody tweets that they might be postponing and then the market jumps. How do you plan? 51 percent of our network said we can't plan. We are going to put everything on hold.

Senator MARKEY. And for a small business, a truly small business, that is potentially catastrophic. Is that right?

Ms. ZIMMERMAN. It absolutely is. And the numbers in a small business, too, that it would take to put us under is so much different than the big numbers that you all have to deal with in your work every day.

You know, if we can save $70 billion by changing the roundtripping, closing up that one loophole, how far would that go for small business? How many individual main street businesses would that keep open?

Senator MARKEY. So according to the Urban Institute, in 1963 the top 1 percent had 36 times the wealth of the middle class. Since then that wealth gap has almost doubled with the aggregation of the wealth in the upper one percentile. Entrepreneurship can help close that gap between the ultra-wealthy and everyday Americans, however, policies that grow the wealth gap will hurt entrepreneurs, given that 75 percent of small businesses use personal savings to start their firms.

America's tax policy should not provide small businesses with pennies while large businesses and wealthy individuals rake in millions.

As I mentioned in my opening, even the so-called small business tax deduction, or section 199(a), does not primarily help true small businesses. The top 1 percent of all earners take home 55 percent of that tax incentive. That is not a small person. You are making over a million. You are not in any need of a tax break right now.

Ms. Zimmerman, as an accountant you have helped countless businesses large and small file their taxes. In your experience, what kinds of businesses benefit most from the so-called small business tax deduction?

Ms. ZIMMERMAN. Well, obviously, larger small businesses is the first. I can tell you that 43 percent of our small business owners told us they couldn't even figure out if they were eligible for it because they don't have accountants.

You know, if you are making $75,000 a year how much do you have for all that tax planning available? You are feeding your family. You are feeding your neighbor's family. The complexity is beyond crazy. It doesn't allow for certain firms. It doesn't allow for this, it is for that.

Even I spent a long time trying to weed through it.

Senator MARKEY. Yes. So, that is what really bothers me. I see Elon Musk now. He is saying, well, the deficits. It is a huge problem for our country. We have got to destroy the Department of Education, destroy NIH funding. We are going to have to go in and loot Medicaid that serves about, you know, 30 percent of our country.

Grandma and grandpa are in nursing homes. 70 percent of people in nursing homes are on Medicaid and half of them have Alzheimer's. He is saying loot all that money. Give it to tax breaks.

And who gets it? People who make more than $1 million a year. Can we really afford that because we have to take the money from grandma and nursing homes, kids who need an education? These are just crocodile tears coming from Elon Musk and the Republicans about their concern about deficits even as they call for huge tax breaks for the wealthiest in our society.

Chairman WILLIAMS. Next we have Congressman Stauber from the great state of Minnesota for 5 minutes.

Mr. STAUBER. Thank you very much, Mr. Chairman. I see my colleagues on the other side of the aisle are bringing out their old, dusty playbooks again. I would just say when we talk about tariffs I represent northeastern Minnesota.

President Trump put the 232 steel tariffs that saved the iron range and they were so good that President Biden kept them on. We have to understand the opportunities that we have because the secondary positive effects in northeastern Minnesota because of those tariffs they are still in business today.

And remember, northeastern Minnesota mines the iron ore that makes almost 82 percent of this nation's steel, which is a strategic national security issue. So, the tariffs that President Trump put on the steel industry and President Biden kept on worked. They saved the iron range. And as the iron range in northeastern Minnesota go, so does the state of Minnesota.

Chairman Williams and Chairwoman Ernst, thanks for holding this meeting today. In northern Minnesota, as I said, small businesses they are not just the backbone of the economy. They are the heart of the economy, whether it is a precision manufacturing facility in Duluth, Minnesota, a family-run logging operation in Grand Rapids, or a fifth generation farm in Chisholm, or a manufacturing facility in Forest Lake.

These are the folks who create jobs, train young workers, and keep our small rural towns alive. That is why the Tax Cuts and Jobs Act of 2017 was so important. It wasn't just a tax cut but a signal that the government wanted our small businesses to take our economy to that next level.

The 20 percent deduction for pass-through businesses under Section 199(a) leveled the playing field for small firms competing against large corporations. This provision has helped thousands of Minnesota pass-through businesses like S-corporations and sole proprietors reinvest in their operations, raise wages, and hire new employees, as many of you testified today.

Mr. Click, your business has seen remarkable growth over the past 15 years. If the Section 199(a) deduction sunsets at the end of this year, how would that impact your ability to invest, hire, and even stay competitive?

Mr. CLICK. It is all about the equipment. You know, our 10-year plan we would like to have five more fabrication facilities around the country. And as I said earlier, each one costs about $2 million, so that 10-year plan without the Section 199(a) coming back they push off from 10 years to 12 years or longer.

Mr. STAUBER. You have you have to stay competitive.

Mr. CLICK. We have to stay competitive. We have to keep advancing. We have the most advanced equipment in this industry.

We have more advanced equipment than anyone else in the industry combined, and I would like to keep that.

Mr. STAUBER. Yes. And the way you survive is in continuously investing in that advancement in the equipment so you can stay competitive.

Mr. CLICK. Absolutely.

Mr. STAUBER. Because if you don't, you are going to be out of business. Will that be true?

Mr. CLICK. It would be impactful. I don't think we will be out of business. We basically reinvented threading conduit and, again, we want to keep that title and keep growing.

Mr. STAUBER. Yes. Capital purchases like equipment or new technology are foundational to long-term growth.

Mr. Akers, from your experience as a franchise owner how did 100 percent bonus depreciation improve your ability to grow your business? And what risk do you see if this benefit is not made permanent?

Mr. AKERS. Bottom line is since that was put into place we have grown our business by about 25 percent in the number of units, which is a huge explosion for the Midwest for rural America, as you said. With that goes 50 jobs or some something in that neighborhood.

So, being able to reinvest in that has accelerated our growth and will continue to accelerate the growth in the future, as well as allow us to give more benefits and wages to our employees.

Mr. STAUBER. You know, you just said the loss of 50 jobs. That is real in small town Iowa or small town Minnesota. People in this town don't understand that. We talk about small businesses being the engine of our economy. We have the opportunity right now to do that.

I was a small business owner for 31 years. It wasn't easy. It wasn't easy raising four kids and my brothers would say we have got to come up with $7,000 apiece by next Friday because we can't meet net 90.

You folks are the engine of our economy. Don't ever forget that. Don't let this town change your mind or anybody on this dais change your mind. Small businesses are the engine of our economy. They are going to make America even better.

Your private investment, you have got to reach in your wallet, take that risk for the American Dream and be successful and employ those people that live in our rural small towns. We are depending on you. Don't quit ever.

And I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize another person from Kentucky, the great state of Kentucky, Representative McGarvey for 5 minutes.

Mr. MCGARVEY. Thank you, Mr. Chairman. I did see that Mr. Click and Dr. Brashers definitely went to the University of Kentucky, which I appreciate.

I also want to take a moment right now to just say we are really thinking about all of the small business owners in Kentucky who are dealing with the historic flooding right now in our state. It is really bad and it is ravaging many parts of our state and small businesses are crushed right now dealing with that.

So, obviously, now is not the time to be cutting back on something like FEMA or to hollow out an agency like the Small Business Administration which helps the federal relief efforts for our small businesses hit with this uncertainty.

We have talked a lot about tariffs say. You know, I want to talk a little bit about tariffs as well. Tariffs are a tool. A tool is neither good nor bad. A hammer is a tool. It is pretty good for putting a nail in a wall. It is not so good for fixing your iPhone.

How you use a tool matters and Donald Trump is wielding this tool in a chaotic way without any strategy, without any plans in a way that is definitively hurting businesses, small businesses, and American workers.

One of the ways he is hurting our country with his current tariff plan is just the uncertainty of it. We had a day a couple of weeks ago where tariffs were on on Monday, off on Tuesday, on on Wednesday, off on Thursday.

Right now people are unsure what he is doing. If you read any coverage of this, conservative, liberal, whatever, they are saying what is the president actually going to do? Is he going through this? How does this matter?

And the uncertainty that small businesses face every day regardless of what the president decides to do when he wakes up in the morning is enough already, but this uncertainty that he is causing by escalating these trade fights on average every 3 days since taking office is not good for business. And the markets right now certainly reflect that.

So, I want to ask you, Ms. Zimmerman, I am sure you have heard a lot from terrified small business owners who are grappling with this uncertainty over the last several weeks. How does this uncertainty alone harm small businesses?

Ms. ZIMMERMAN. My colleague who is here with me today, a friend and colleague, has a manufacturing company in Pennsylvania, been in his family for 100 years. Barely survived COVID with all of that going on, came out on the other end successful, and now he is being hit with this, which is much worse than what he was hit with there.

His supplies come in from out of the country. He has no negotiating power. He doesn't know how much to order for his Christmas, you know, season because he has no idea. How do you figure that out when you have no idea?

And if I might say, Representative, the words level playing field have been used by all of us many of times today. How is a 40 percent tax cut for the biggest businesses and a mere 20 percent deduction, not tax cut, but deduction, an even level playing field when that is what the small business has gotten?

Mr. MCGARVEY. Right and it is not.

Ms. ZIMMERMAN. That is not level.

Mr. MCGARVEY. It is not a level playing field and what we want for our small businesses, for main street, which remains the backbone of the American economy. We were talking about these tariffs again and why is it, you have mentioned this, but drill into why the tariffs cause such disproportionate harm to these small businesses?

Ms. ZIMMERMAN. Well, I think it is the thin margins. It is the inability to negotiate. You know, if I am selling a widget and I am truly main street down the block from me that is my neighbor that is running that store. How does he have any negotiating ability when Walmart has already told that same supplier that you will not pass that whole tariff on to me or I will go somewhere else.

Because my neighbor when she does that they don't care. Go ahead. I am going to take care of Walmart.

Mr. MCGARVEY. Flipping from the tariffs now to the tax increases, which you talked about, if the House votes this week on the full extension of the Trump tax bill, which would give the top 0.1 percent of Americans disproportionately, not to mention the top 1 percent of Americans, while giving the rest of us very little, one of the ways that they are trying to pay for that—it is still going to add to the debt.

One of the ways that they are trying to pay for that is by cutting healthcare. That will also have an impact on small businesses, won't it?

Ms. ZIMMERMAN. Absolutely. We help our employees navigate that and it will make it impossible.

Mr. MCGARVEY. Thank you, Mr. Chairman. I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Van Duyne from the great state of Texas for 5 minutes.

Ms. VAN DUYNE. Thank you very much, Mr. Chairman.

I want to thank our witnesses for joining us here today. Time and time again what we hear loud and clear from businesses all across the country is they need certainty, parity, and simplicity in the tax code. And as we move through the budget reconciliation process we must keep small businesses at the front and center of our priority.

I am sitting here today listening to Members on, you know, colleagues on the other side of the aisle saying that the idea that under the Biden administration the economy was just fine and dandy, that is an absolute lie.

Under the Biden administration we saw twice the inflation that we have seen under the Trump administration. And when you look at stats from the Bureau of Labor Statistics that indicates that real average hourly earnings for private sector employees actually dropped 2.24 percent between 2021 and 2024. That is not a great booming economy.

On the flip side, when you look at the TCJA results, the bottom 50 percent of earners paid less income tax than ever before, and the bottom 20 percent saw their federal tax rate dropped to the lowest level in 40 year. So somehow the idea that working Americans did not benefit from the TCJA, again, is an absolute lie.

The tax cuts also enabled businesses to raise wages leading to a 4.9 percent increase in real wages between 2018 and 2019. That is the fastest wage growth that we saw in two decades.

Additionally, real median household incomes in the U.S. rose by $5,000, a larger increase than the previous 8 years combined. And overall, individuals and families received $3 out of every $4 from the total 2017 tax cut package demonstrating its direct benefits to

American households. So, the idea that only large corporations are benefiting from this, absolute lie.

So earlier this year, I joined my colleague Representative Smucker in co-sponsoring the Main Street Tax Certainty Act to make the small business pass-through deduction permanent.

I have also signed on to Representative Arrington's ALIGN Act to restore and make full bonus depreciation permanent.

I have joined Representative Estes on his American Innovation and R&D Competitiveness to permanently allow for immediate R&D expensing.

These three provisions, cornerstones of President Trump's signature tax reforms, have brought about some of the greatest investments in innovation in our nation's history and the numbers back it up.

According to NFIB, letting the 199(a) deduction expire would force 60 percent of small businesses to raise prices and nearly 44 percent to delay or cancel capital investments. On the other hand, making the deduction permanent would create 2 million jobs annually and that is more than 8,000 in just Texas 24 in my district alone.

So, Mr. Click, how would your business be harmed if the section 199(a) deduction were to sunset?

Mr. CLICK. Again, as I have said, it would slow us down. It would also slow down our plans to make more products here in the USA that, unfortunately, the country has stopped making.

And I know there is a lot of talk about tariffs. I am definitely not a tariff expert but I can tell you from personal experience when my wife Sarah and I put the company together we made sure that our products were made here in the USA. And we are the only company that guarantees all of our aluminum products are made here in the USA, mostly in Virginia, our feedstock.

The products that we import represent less than 2 percent of our revenue, and again, we have been through the tariff discussion before and see minimal impact from that. But I don't want to slow down. I want to continue. I want to make those products that we have to go to other countries for right now.

Ms. VAN DUYNE. Having an aluminum manufacturer in my district and listening to them complain about how the unfair competition with the rest of the world that the U.S. government has placed on them, they really appreciate that. And I thank you for your buying from American business members.

Mr. Brashers, in your research you emphasize the role of full and immediate expensing and replacing the IRS' complex rules for depreciation. Assuming that you agree that businesses have to deduct capital investment expenses over 20 years is impractical, just how important is full and immediate expensing, especially to capital-intensive small businesses?

Mr. BRASHERS. Well, just to give you some idea, just think about the inflation that we have just been going through where we had 8 percent, 9 percent, even 5 percent inflation, and you think about that deduction and you are telling business owners that they are not able to actually claim that deduction for 20 years.

What ends up happening is ultimately you are only potentially getting about half of the deduction for some of these 20-year assets. And so it is quite harmful.

Ms. VAN DUYNE. All right, thank you very much.

And I yield back.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Representative Simon from the great state of California for 5 minutes.

Ms. SIMON. Thank you. Thank you, Chairs and Ranking Members and thank you witnesses for coming this way and telling your stories and giving us a wonderful perspective.

In reading the reading materials in the homework, it is to me clear that this hearing is not necessarily about the prosperity of main street.

In fact, it seems as if many of us are pretending that tax cuts for the wealthy will somehow trickle down to the small business owners who are being pushed to the edge right now.

And yes, 2 years ago, 6 years ago, 10 years ago, 20 years ago small business owners in this country have consistently struggled in many of our communities to make ends meet. This hearing is actually about ignoring the fact that the real economic emergency is one that we are not talking about right now across the country.

There are tens of thousands of workers, many of them veterans, first generation Americans, many of them disabled, running small businesses, many folks who have been fired from our federal government also first generation Americans, many of them veterans, many of them disabled.

These are not tech giants but we fired folks from our own government. Small businesses can't safely rely on an SBA in this moment that is being dismembered in real time. We have talked to hundreds of small business owners in our office and they have said clearly they can't get through. No one is answering their request.

And if the SBA has to manage $1.6 million in student loans then they can't focus on the conversations that we are having today, the mom and pop vendor on main street, on Broadway Stret. We are not investing in main street in having these conversations. We are ripping out the social safety net and we are calling it fiscal responsibility.

So, let's stop pretending. The economy is not working for working people. It is not creating opportunity. In this moment we know that is true. It is not creating a class of folks who can and thrive in real time.

In fact, we are discarding people, skilled workers and small business owners at the same time with no support, no capital, and no roadmap moving forward. If this hearing was truly about prosperity we would be talking about target investments, targeted investments that expand access to not only capital and real resource in real time, but also expanding access to healthcare, solidifying public infrastructure, and a tax system that honors work, not wealth.

Instead, we are watching a slow collapse, a real collapse, and there is no up from here unless we change course.

I have a question to Mr. Zimmerman and thank you for being here, excuse me, Mr. Zimmerman. Thank you for being here today.

Ms. Zimmerman, you serve real business owners, real folks, people holding together families, communities, and folks who are disbursing paychecks to real everyday folk in community.

And in this moment, as the administration disbands critical safety nets, disbands the services that are supposed to support these small business owners, disbands the SBA with no clear strategy moving forward, what are your clients afraid of most? And what would an actual true investment right now, not performative tax cuts, look like for them?

Ms. ZIMMERMAN. My clients' risk is not surviving through this uncertainty. It is not surviving through the tariffs. We can talk about maybe tariffs being, as you said, a tool and maybe being successful coming out the other side but they are not going to be there on the other side for this. They are going to be gone by then.

And those are my neighbors. And by cutting Medicaid and Medicare and all these safety nets, the SBA, even the IRS where we are taking away tools that they are using directly, you know, my colleagues who have larger businesses maybe even employ 100 or 200 people, they are not going to the SBA directly. They have lawyers and bankers and stuff.

Ms. SIMON. That is right.

Ms. ZIMMERMAN. I am talking about the true main street entrepreneur who relies on that.

Ms. SIMON. I want to thank you for your answer. Andthat you have such little time but I think you pinned it correctly.

As your clients continue to navigate entrepreneurship in this economy where the foundation that they stand on is being pulled out from under, I hope we get it right. I hope we get it right.

And thank you all so much for being here today. I appreciate your testimony.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Representative Alford from the great state of Missouri for 5 minutes.

Mr. ALFORD. Well thank you, Mr. Chairman, and thank you, Chairwoman Ernst, for holding this important hearing today. I would also like to thank the senators here for making the trek over the House.

Thank you to all of our witnesses for being here today on your own time and own dime. American experienced its greatest economy in my lifetime under President Trump, and that was no coincidence. It was thanks to the Tax Cuts and Jobs Act of 2017.

The TCJA allowed Americans to take the leap. It allowed businesses to flourish. It allowed our country to move forward as one nation under God. It ushered in the hope and reality of the American Dream as small business owners around our nation were all living their own version of it.

Allowing the Tax Cuts and Jobs Act provision to expire and increasing taxes will not only further hurt the competitiveness of our small businesses; it will crush them. The jobs that they provide will no longer be there. The communities they serve will suffer. People will go out of business.

It will chill the hope and reality of the American Dream on main street that we all saw was possible just a few years ago. I would urge my colleagues, Republicans and Democrats, senators and representatives, to work together to make sure that the 2026 does not usher in the largest tax increase in U.S. history.

And let's get one thing straight. Enough of the lies and deception and gaslighting. This is not a tax cut for billionaires and millionaires. This is an extension of tax policy that is going to allow mom and pop businesses in the 4th Congressional District of the great state of Missouri to stay in business, to hire people, to make rural parts of America flourish.

Mr. Brashers, many of my Democratic colleagues have painted an extension of this Tax Cuts and Jobs Act as handouts for oligarchs, tax cuts for the rich. Can you explain why they are wrong?

Mr. BRASHERS. After the Tax Cuts and Jobs Act was passed we actually saw that the bottom 50 percent paid a smaller portion of federal taxes than they did prior to the TCJA. The idea that the TCJA was simply a giveaway to the very wealthy is just not backed up by the facts.

Mr. ALFORD. And, in fact, it is going to be a big deterrent to starting small businesses in America, will it not?

Mr. BRASHERS. Yes.

Mr. ALFORD. Explain that.

Mr. BRASHERS. Yes, absolutely. So, what we are talking about right now with the extension of these provisions, keep in mind that the corporate rates that has been locked in, so if you were to allow this to lapse what you would actually have would be that the small businesses would be slammed with a 20 percent tax increase in the case of the 199(a) deduction.

And all businesses would be hit with tax increases from the expensing and all these other provisions we have been talking about today. These would be pretty much across the board for businesses. They are going to be paying significantly higher taxes and absolutely it is going to hit the small businesses the hardest.

Mr. ALFORD. Mr. Akers, let's dive into this just a little bit more. If this section 199(a), the pass-through business deduction is eliminated for Main Street America, what is that going to mean to business in America, 33 million small business owners?

Mr. AKERS. Well, the bottom line is that money has got to come from somewhere. If we are paying more in taxes we can't use it for other things. Again, I reiterate most of that comes from increased prices to consumers. It comes from lower future benefits and wage increases for our employees.

Our piece of the pie is as an owner is very narrow. It is very tiny. We cannot give up any more of it so it has got to come from somewhere else.

Mr. ALFORD. Thank you. I have 24 counties in my district from south of Kansas City over to The Lake of the Ozarks down to Springfield. I am in the district all the time. I talk to small business owners.

They are deathly worried and rightfully so about us not getting this done and them not being able to compete against the big guys. We must—we must renew these provisions. It is not a tax cut for the rich. It is not for the billionaires and millionaires. This is for mom and pop. This is for the people who run the sawmills for black walnut in the state of Missouri. It is for people who have sign companies in Sedalia, Missouri.

This is not about the rich. It is about making America wealthy again through small business. Thank you so much and I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Senator Hirono from the great state of Hawaii for 5 minutes.

Senator HIRONO. Thank you. It is Hirono. I thank the two Chairs for this, and I say Aloha to our witnesses. I am glad that Ms. Zimmerman is here.

The bottom line is that who is going to benefit or who benefited from the 2017 tax changes? And, Ms. Zimmerman, I think you described small businesses as a 90 percent of small businesses who are making what or have revenues of what did you say?

Ms. ZIMMERMAN. 75 percent earn end up with—live off of $75,000 or——

Senator HIRONO. $75,000 for the 75 percent.

Ms. ZIMMERMAN. Yes, something like that.

Senator HIRONO. And how many of these are the small businesses, and there are thousands of small businesses that fit into that category?

Ms. ZIMMERMAN. Oh, yes.

Senator HIRONO. How many of them do you think benefited from the 199(a) tax provisions?

Ms. ZIMMERMAN. Well, we know that it is to the degree——

Senator HIRONO. This is the category of the 75 percent. I am not talking about the ones who have franchises and over 100 employees.

Ms. ZIMMERMAN. Well, if you think about it, if they made $75,000 or let's even say 100 to make it simple, okay? So, if they made 100 then they get a deduction of 20 and their tax rate at that rate is only 12, so they are getting $2,000, $2,400. That is their benefit. How many employees are they going to hire with $2,400 is what I am saying?

And I am hearing about sunsetting. We can't let these sunset because it would kill small businesses. Absolutely, but there are other options than sunsetting.

Don't you have the right as our representatives and senators to improve it instead? don't you have the right to change it? Why did we have a 40 percent cut for the Amazons of the world and I got a 20 percent deduction, which actually I don't get, but I won't go into the technicalities of it——

Senator HIRONO. So, Ms. Zimmerman, we are going to be confronted with extending the 2017 tax bill so if we were to focus on the 75 percent of small businesses who I think I would describe as truly small businesses, how would we change? What kind of changes would we make to, for example, 199(a) or any of the other existing provisions that we were asked to simply re-up?

Ms. ZIMMERMAN. Well, 199(a) is very complex and that is part of its problem.

Senator HIRONO. Well, I know that.

Ms. ZIMMERMAN. Yes, and so perhaps simplifying the overall code so that the truly small business benefits. Give them a credit for their first employee. Many of those businesses it is just one person. If they want to grow they are hiring their first one, right? Give them a credit for hiring that.

Give them a standard deduction ability so that they don't have to track every receipt when they are out mowing people's lawns, right? And they can instead take that standard deduction.

Close some loopholes to push money back to small businesses.

Senator HIRONO. So, I think that the information that we have that the 2017 tax bill actually benefited the richest people in our country and corporations, I don't think there is any amount of gaslighting that is going to change those statistics.

So, what I am interested in, again, is how do we truly help the majority of small businesses as described by you, Ms. Zimmerman, folks who are bringing in less than $75,000 a year and those are—that would not be the two gentlemen who own businesses who are on this panel, by the way. You do not constitute small businesses as described by Ms. Zimmerman.

So, I am going to be very interested in finding out, you know, what provisions we can put into this bill, well, actually that would presume that I actually—that there are provisions in the bill that actually help people. I think not. But again, I just want to thank you for being real, Ms. Zimmerman.

Ms. ZIMMERMAN. Thank you.

Senator HIRONO. Thank you for being here.

Thank you for both of our Chairs.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Representative Wied from the great state of Wisconsin for 5 minutes.

Mr. WIED. Every single day in my offices both in D.C. and the district receive requests from local small business owners asking me to support the extension of the 2017 Trump tax cuts. I would like to tell them directly that I am fully committed to advocating for the extension and codification of the important tax breaks for small businesses.

Those on the other side of the aisle don't support this. They bemoan the growing federal deficit and falsely claim that by extending the Trump tax cuts we will add to our federal debt.

Let me be clear. The federal government does not have revenue problem. We have a spending problem, not to mention this, maybe the first time ever the American people have heard Democrats concerned about debt.

Instead, they spent their time proposing one bloated federal budget after another. Rather than cheering on our efforts to cut discretionary spending and make sure the American people are prioritized by our own government, they spent their time claiming we are attacking democracy.

The message from Democrats is clear. They want to raise taxes on everyday Americans to pay for DEI programs in Serbia, Sesame Street in Iraq, and transgender surgeries in Guatemala. They want to punish American small business owners by saddling them with added regulatory costs that make it harder for them to do business.

Republicans are focused on our primary mission, helping the American people and allowing main street to prosper again. One of the common misconceptions about the Trump's tax cuts is that they primarily benefit the wealthy.

Mr. Click, if we took one provision of the Trump's tax cuts, the 199(a), a CRS report found that 80 percent of 199(a) claims were filed by those making under $200,000 a year and 98 percent of all claims were filed by those making under $1 million. How vital are 199(a) deductions for businesses making under $1 million a year to maintain and potentially expand their small business?

Mr. CLICK. I think they are absolutely critical, and I think all the small businesses are actually tied together. You know, there was a comment that we may not represent businesses that make less than $75,000 but I can tell you from personal experience of the years where I made less than $75,000 while risking everything for this company. I think we might represent what these smaller businesses would like to grow into and become.

And without this, without the TCJA, it is going to go much slower and it is going to be much harder for the smaller businesses that maybe are designed to be a lifestyle business instead of something that is much larger.

Mr. WIED. Very good. I would agree. In my business we could have lost $100,000 or maybe made $50,000 or maybe we made $200,000 in it and sometimes you don't have control over. It is a very difficult thing.

Mr. Akers, as a former small business owner I know the benefits of section 168(k) bonus depreciation for small businesses to replace equipment and machinery. In my district we have over 1,000 manufacturing firms employing almost one-quarter of our working population, with 89 percent of those manufacturing firms in my district are classified as small businesses.

With Republicans working to return manufacturing back to the United States right now, how important would raising the bonus depreciation back to 100 percent be for small manufacturers looking to expand their business?

Mr. AKERS. Well, I would add that it is important for every small business, not just manufacturers, but thank you for the question. The bottom line is we want to grow.

I agree with Mr. Click. You know, we are being characterized as being not small business, but the fact is each and every one of us started out with one unit losing money, risking millions of dollars of our own money, and sometimes not getting a paycheck.

So, it is critical that we have the opportunity to continue to grow and expand because, once again, most small businesses want to grow into more than one unit or two units or three units and they cannot do that without these benefits.

Mr. WIED. Thank you. I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Scholten from the great state of Michigan for 5 minutes.

Ms. SCHOLTEN. Thank you, Mr. Chairman, and thank you so much for holding this critical hearing today. We are seeing unprecedented attacks on our small businesses across the country and they are struggling to keep place in a market that increasingly does not work for them here in the great state of Michigan, where we are at the center of the attacks on businesses across the country, where tariffs are reaching an all-time high.

You know, we know it all too well. We are facing budget before the Congress this week that will add additional burdens if we are not careful. Studies from organizations like the International Monetary Fund and the Tax Policy Center have found that foreign investors retained more earnings as a result of the TCJA's reduction in effective tax rates.

Let's be clear about who benefits from an extension of these tax rates. My colleagues on the other side of the aisle are essentially proposing that we cut critical services like Medicaid and SNAP to pay for tax cuts that benefit not only the wealthiest our nation, but also those who don't even live in this country.

Ms. Zimmerman, do you agree that the federal government should ensure that large companies both here and abroad pay their fair share of taxes before we allow poor and middle class workers to foot the bill of a plan they do not stand to benefit from?

Ms. ZIMMERMAN. I do. Thank you for the question and let me clarify. I am not an adversary of my colleagues here on the panel. I commend them and applaud them for their success in business, and I think their continued success is just instrumental in our company. So, I don't—in our country growing. I don't want to make that split.

But what I am saying is we don't have to fix this with that proverbial hammer. Can't you stop the fact, I mean, yeah, there are statistics all over. Half of the 199 pool, half of it went to people, the top 5 percent, okay? So, throwing statistics around, yeah, we got some more. Maybe we paid a little more.

My daughter and son-in-law they are a union teacher and firefighter and I thank them for what they do.

Ms. SCHOLTEN. I thank them for what they do as well.

Ms. ZIMMERMAN. And when the TCJA came through I have started many a business. I own my own business. I got a much bigger savings than they did as they raised their four children.

And to me that is where we needed a little finesse.

Surely we can do something to change this so that we are not shoving all this money to the higher income levels or to foreign investors, as you say.

And the social safety net is so very important for the smaller businesses. They can't survive if their community is not healthy, bottom line. We are one with our community.

Ms. SCHOLTEN. It is essential. Thank you. One message that I consistently hear from business owners back home is the need for more workers. We are experiencing a shortage across industries, small businesses in particular. We feel that and see in practice that the current administration's practices are exacerbating some of those conditions.

I want to stay with you just for one second. You suggest in your testimony that a tax credit for entrepreneurs who are hiring employees for the first time may be a good idea. Can you expand a little bit on that idea and tell us how some policies like these, which give targeted support to businesses in early stages, could help us address some of these larger workforce issues?

Ms. ZIMMERMAN. Right, because that is not using the hammer right.

Ms. SCHOLTEN. Yes.

Ms. ZIMMERMAN. Let's make those small changes. All of these millions of businesses that are making below $100,000 they are getting ready to hire their first employee or they have just hired their first employee——

Ms. SCHOLTEN. That is right.

Ms. ZIMMERMAN.—that everybody on this panel will tell you that is a scary leap of faith going off the cliff when you hire that first person.

And yes, we are putting our own money into hiring them. And yes, we are putting our own money in to make payday. So, a credit for that first employee that comes back immediately through the payroll credit system. We have that in place. That would be very helpful.

Ironically, funding the IRS, and I know. I am a CPA and I have to deal with them but it helps small businesses who have to work with them more as a—it shouldn't be adversarial. We are trying to be compliant and we can't if you close the offices all down.

Ms. SCHOLTEN. Thank you. I yield back.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Senator Husted from the great state of Ohio for 5 minutes

Senator HUSTED. Thank you, Mr. Chairman. Thank you for inviting us to join you today for this hearing.

I thank all of you for being here and what you contribute to the world through your work. My wife is a small business owner but she's like most small business owners. 81 percent of small business owners in America are sole proprietorships. They don't have any employees. I would like to focus my conversation on those businesses that have employees, the other 19 percent are, the ones who beyond themselves create jobs for others.

And I want you to think about the TCJA in that context. If it were to go away versus if we renew it, how would that impact your employees? How does that impact?

And I will start with you, Mr. Click. How does the structure of how we assemble the tax code across the board and everything that has been discussed today, how does that impact your employees and your ability to take care of them?

Mr. CLICK. Thank you, great question. You know, I have said it several times that it slows down the businesses, but it is also that the business is also very interconnected. And the equipment and the employees as a work family we all, kind of, work together.

To keep growing the company, to keep investing in equipment means that I have got new skills that my employees are going to get to learn. They are going to get paid a higher wage as we go away from the very basic manual operations to more advanced CNC operations or even driving trucks, something more valuable to the company.

Taking away the TCJA slows that down tremendously. We will keep going but it makes it much easier when everyone is on the same page and pushing in the same direction.

Senator HUSTED. And I presume that that is not only improving their skills?

Mr. CLICK. Improving their skills and improving their wages.

Senator HUSTED. Improving their wages and——

Mr. CLICK. Absolutely.

Senator HUSTED.—productivity gains?

Mr. CLICK. It's a direct 1:1. As soon as they get that skill——

Senator HUSTED. Get to where you can more all the time?

Mr. CLICK. They get paid more absolutely.

Senator HUSTED. Benefits, wages, all that?

Mr. CLICK. Benefits, bonuses, annual bonuses, mid-year bonuses, the turkeys that we give out for Thanksgiving, all of that is impacted by this. It is all tied.

Senator HUSTED. So in the end, it is good for small businesses but it is good for your employees.

Mr. CLICK. It is great for the employees and it is great for the smaller businesses that are the sole proprietor that provide services to companies like Patriot.

Senator HUSTED. Mr. Akers, would you like to share some thoughts on, reflect on that question?

Mr. AKERS. Yes, thank you very much. Our employees are a part of our family, to be very honest with you. I know it is trite but the bottom line is that we can't do any of the business we do without our employees, so we pay higher than normal industry standard wages already.

When the tax cuts came through the first time we increased the wages by about 20 percent. They have gone up another 10 or 15 percent since then. We will continue to raise them.

Our benefits are by and large huge over most of our competition, so we can only do that when we have got extra money that we can do something with. One other thing, the communities we are in they are dramatically impacted by the money we give back to them and that comes from this same fund, the ability to have that money back so that we can redistribute it.

Senator HUSTED. So, let me just, I have a contention that if you look at history those nations that are the most economically and militarily successful are the ones that are the most innovative, the ones where technology allows them to be successful.

In the context of your business and think of your employees, how much does the investment in new technologies and job training mean to your productivity levels, which allow you to compete against foreign competition and improve the overall quality of the work environment for your employees?

Mr. Click?

Mr. CLICK. That is a great question, and I am so glad that you asked it. The technology that we brought into our industry had never crossed over. We are in a 100-year-old industry that was essentially unchanged up until 15 years ago when we came in because advanced manufacturing is the reason that Patriot exists today.

And when we take the bankers through and other people through the company I show them this bank of 16 CNC machines. First shift we will run all 16 of them with four employees. Second shift we will run 10 or 12 with two or three employees, and on third shift we will run seven or eight with zero employees.

And do you know what beats offshore wages? Zero wages on that machine overnight. It runs automatic. It produces the best quality products on the planet.

Senator HUSTED. And that allows you to do Made in America.

Mr. CLICK. Absolutely it does.

Senator HUSTED. And it allows you to continue to make investments to continue to compete and to have a thriving business where you can employ people?

Mr. CLICK. Yes, sir.

Senator HUSTED. And so you would say that the renewal of this is essential to American success and prosperity?

Mr. CLICK. Absolutely it is. It is critical.

Senator HUSTED. Great, thank you. I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Tran from the great state of California for 5 minutes.

Mr. TRAN. Thank you, Mr. Chairman.

Ms. Zimmerman, just last week former President Trump, I am sorry, President Trump and his administration proposed one of the largest tariff tax increase on American people since the 1960s and already we are seeing the economic ripple effects. The U.S. market had its worst week since the start of COVID and families are feeling it.

These tariffs are taxes on consumers raising prices on everyday goods, groceries, cars, appliances, housing materials. These are the essentials for working families and they simply can't afford to pay more at a time when household budgets are already stretched thin.

Let's be clear. No one voted for more expensive groceries, more expensive children clothing, more expensive cars, and more expensive household goods. No one voted for President Trump to tank the stock market and the economy.

And yet, this is what Donald Trump's economic approach is delivering. He is creating a recession. In fact, just yesterday, JPMorgan said, " Trump's tariffs will send the U.S. into a recession."

At the same time, small businesses are facing uncertainty. Supply chains are being disrupted and many Americans could soon see job losses as a result.

Ms. Zimmerman, the United States is currently experiencing a cost of living crisis. Everything from rent to groceries to energy are being squeezed by the consumers. How do you expect tariffs to affect the cost of living crisis?

Ms. ZIMMERMAN. Well, what it really does is it creates a dangerous negative feedback loop. It creates higher prices which reduces spending, right, which causes business decline, which causes job losses, which causes future spending reduction. I mean there is no question.

If it is going to cost the average family $3,800 more just to buy what they are buying now, they are not going to have as much to spend at their local businesses period. Some of those businesses are going to go out of business.

Mr. TRAN. Thank you for that. I was a proud small business owner myself before coming to Congress. I know that Healthcare is one of the biggest challenges facing small employers, not just for themselves but also for attracting and retaining workers. Large corporations often have the resources to offer group health insurance plans, but small businesses are frequently left to navigate the individual market.

That is where the enhanced premium tax credits have made a real difference by lowering the cost of health insurance through the Affordable Care Act marketplace, especially for people who are self-employed or working in small shops. These tax credits have helped level the playing field and save thousands of dollars the year for small businesses.

Ms. Zimmerman, my Republican colleagues are more interested in providing tax cuts for millionaires and billionaires than extending a tax credit that helps small business owners buy health coverage. Considering this, can you speak to how these enhanced tax credits have impacted your ability to afford quality coverage for yourself, your family, or your employees?

And if these tax credits were to expire at the end of the year, what would that mean for your business?

Ms. ZIMMERMAN. One of the biggest competitive disadvantages we all have here, and certainly smaller businesses have, is health insurance. We can't get a reasonable policy for our employees and so then on the marketplace what we do is we help our employees eat—well, actually we don't now. I should change that. We did when it came out.

We would help our employees go out and find some and we set up a HR, you know, plan and paid back some of the premiums as we were allowed to tax free. Without that marketplace, a lot of people are going to go uninsured again. And small businesses are going to lose their employees to the P&Gs and GEs of the world, which are the big companies in Cincinnati that can give them stellar benefits that we just can't afford.

Mr. TRAN. Yes. I agree with that. Thank you.

Mr. Chairman, I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Meuser from the great state of Pennsylvania for 5 minutes.

Mr. MEUSER. Mr. Chairman, I thank you very much.

And certainly thank you to our witnesses. The so-called TCJA of 2017 led to years of record low employment, GDP growth, real wage growth, and record high tax revenues. Families saw their median household incomes increase.

Real wages grew. Six million people were lifted out of poverty and main street businesses saw $66 billion in tax revenues, all the while tax revenues, federal tax revenues grew dramatically. That is a record. That is a fact.

Now, Congress is working to deliver on the American first agenda in the so-called one big, beautiful bill, reconciliation bill which will rein in—the plan is for it to rein in wasteful spending and reignite our economic growth.

So, last week in our Small Business Committee hearing we heard some testimony from witnesses that brought out that only 1 percent of small businesses make a profit of over $1 million, so one out of every hundred business makes less than in net income of $1 million.

That being said, do any of you believe that the TCJA was a handout to billionaires, as is often stated?

Mr. Click?

Mr. CLICK. No, definitely not, just by the sheer math of it, the amount that goes out to the owners of the company. It was fractionally impacted it.

Mr. MEUSER. I appreciate that.

Mr. BRASHERS. No, I don't agree with that statement at all. I think, as Mr. Click was saying, the exact opposite was true. It was designed very specifically to avoid just being a giveaway to the very rich and they, if anything, targeted the bottom half of the income distribution more.

Mr. MEUSER. Thank you.

Mr. Akers?

Mr. AKERS. Not at all it. It dramatically impacted us and anything that impacts us in a positive way creates more revenue, which creates more taxes, which is a big cycle sending more money back to D.C. So, it is positive for everybody the way that I see it.

Mr. MEUSER. Right. And something tells me that added revenue that you gained went back not into your pocket but into the business, which is pretty much what 100 percent of small businesses tell us.

Mr. AKERS. Absolutely true. The majority of it goes back to either growing the business or funding more benefits for our staff.

Mr. MEUSER. Thank you.

Ms. Zimmerman, would you like to answer that?

Ms. ZIMMERMAN. Let me be clear. I think you misunderstand me. I don't want you to raise taxes on small businesses. I think that would be a mistake, but it is not a black or white yes or no question here.

You know, renewing the TCJA small business deduction does nothing at all to fix the problem that we——

Mr. MEUSER. All right. I just really wanted a yes or no if it was a tax cut for billionaires. Thank you.

The R&D expensing, how important, Mr. Click, is that to your business as well as the bonus depreciation that would expire should we not pass TCJA, that we know?

Mr. CLICK. Yes. The R&D will be more valuable as we go forward in time. We had already done the development before that was allowed.

But the bonus depreciation that is absolutely critical to the business plans. It makes it a lot easier and if it is permanent it makes it a lot easier to make that 10-year plan into a 20-year plan.

Mr. MEUSER. I couldn't agree more, from my business experience as well as my time in the field working with small businesses to our time on our Small Business Committee.

Mr. Brashers, same question?

Mr. BRASHERS. Yes, I think absolutely. So many small businesses have very thin margins and so if you are talking about taking a deduction away from them and if you started with the 2 percent margin and then all of a sudden you take away this deduction for your workers that are in R&D, all those supplies and materials that are going into R&D, you take that away and you push it back 5 years or at least a portion of it, especially for small businesses with limited access to capital it can be devastating.

Mr. MEUSER. Thank you.

Mr. Akers, same question?

Mr. AKERS. Yes. It leads to growth and money from anywhere it leads to growth for us and that leads to added benefits for everybody up and down the system. So, when that money is sent back to us, that extra depreciation, we reinvest it right back into the business.

Mr. MEUSER. I have 40 seconds left. I am just going to ask each one of you your thoughts on the president's plan, the so-called America first agenda, the taxes, the regulations, the making energy that much more competitive, and as we move along with this tariff issue, would you rather see an increase on let's call them taxes on foreign manufacturers or would you rather see an increase on taxes American manufacturers?

Mr. CLICK. That's a really tough question. You know, I am not going to advocate for more taxes on foreign companies, but I think if you set the stage for American companies to be successful we will.

Mr. MEUSER. Great, thank you.

I yield back, Mr. Chairman.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Olszewski from the great state of Maryland for 5 minutes.

Mr. OLSZEWSKI. Thank you very much, Mr. Chairman and to fellow Members of both the House and Senate committees here.

I just want to open by saying as we have highlighted within this committee and throughout this Congress, we know that small businesses are, in fact, the backbone of America, so thank you all for the work that you do. Thank you for being our job generators.

Thank you for supporting economy as being fabrics to the community, even doing things like sponsoring local sports teams and offering those unique goods and services that are so critical.

Two observations that I have today. You know, first of all, is as we are talking about this idea of keeping taxes lower on our small businesses and our producers, the silence on these tariffs, this Trump tax is absolutely deafening. We are talking about how do we lower taxes for our businesses at a time when we have just seen the single largest tax increase enacted in peacetime history of the United States. So, let that sink in.

We are having a hearing about how do we keep taxes low for our small businesses when we are not talking at all or not pushing back at all against the fact we just saw the largest tax increase in peacetime history in the United States. I want to say, you know, as we should come together in a bipartisan way to push back against those tax increases, I come to this work and welcome the opportunity to sustain some of these strategic investments in our small businesses so that we can keep things moving.

But, you know, the facts of the matter are that these tax changes in this law probably should be done more thoughtfully and comprehensively than an outright extension. The data shows that the implementation of the current tax policy skews incredibly high to the risks, the wealthy, the ultra-wealthy.

And so while perhaps not just for billionaires, the income of the top 1 percent of Americans are seeing the average tax cut of $60,000 a year under these provisions, which is fine until you compare it to the bottom 60 percent of Americans who saw a mere $500 tax cut.

You know, we also know that this is failing to deliver the promised economic benefit. The Trump administration promised that by a conservative estimate we would see a $4,000 boost in income but new research is showing that workers who make $114,000 or less, in fact, have seen no boost.

And so, I think I just wanted to share for the record that we welcome the opportunity to continue the investments we have heard today, but I think we can do that without just writ large embracing this wholesale extension that does not benefit all Americans.

So, I guess with that mind, if we were to be more thoughtful about that, Ms. Zimmerman, could you just talk a little bit about what in your view the kinds of impacts we might see on a small business if instead of just merely extending and seeing this completely inequitable distribution of tax benefits that we were instead to, sort of, incentivize work and expand and invest more in things like the earned income tax credit, the child tax credit, other things that incentivize work but also support businesses and business owners putting money back in the pockets of hard-working Americans?

Ms. ZIMMERMAN. I would say exactly. I would say that is what this is all about. Again, I don't want you to increase our taxes. I don't want you to increase any one of our small business taxes. We are doing a lot of good work here on the ground and we are good for the economy.

And coming out of the 2008 recession we led with the new jobs being created, we being small businesses. So, we are going to need that again because it looks like we are going to have to come out of something again, right?

But to forget the fact that the TCJA gave absolutely twice the tax savings to the large corporations in this country than they did to any one of us on this panel misrepresents the whole concept of, oh, you don't want us to extend this?

Well, it is not that I want you to raise the tax. I want you to do it smarter, do it better. Don't not do it.

Mr. OLSZEWSKI. Thank you for that, and we welcome the opportunity again to sustain the investments that do benefit our small businesses while not giving those incredible benefits to large corporations and the ultra-wealthy.

So, Mr. Chairman, I will yield back with that and say I welcome the opportunity to really dig in and do this right as opposed to a wholesale extension that only grows our deficit and misses the mark on some of these important investments. Thank you.

Chairman WILLIAMS. Okay. The gentlemen yields back.

I now recognize Representative Downing from the great state of Montana for 5 minutes.

Mr. DOWNING. Thank you, Mr. Chairman and I greatly appreciate the House and Senate Small Business Committees hosting this joint hearing today on such a critical issue.

The 2017 Tax Cuts and Jobs Act was a tremendous lifeline for small businesses across the nation and especially in my home district of central and eastern Montana, in particular, the estate tax provisions.

And I think there has been a false narrative that has been played here that this is unduly affecting, you know, millionaires and billionaires but the reality of it is in my district I have a lot of small businesses that are farms and ranches that, you know, can be, you know, land rich and cash poor.

And the estate tax provisions of the TCJA have been vital for these small farmers and ranchers across my district. And by doubling the estate tax threshold for individuals and married couples, the Trump tax cuts have ensured that farmers and ranchers can focus on their work and livelihoods rather than preparing for the eventual tax punishments that will be inflicted on their grieving families.

I am going to start with Mr. Brashers. In your testimony you accurately point out that the estate taxes disproportionately impact small farmers and ranchers who are, quote, " land rich but cash poor."

If the TCJA a estate tax provisions were to go away, you know, what impact would this have on the continuation and the productivity of agricultural land across our nation? And something I worry about is production agricultural land, you know, coming out of production.

Mr. BRASHERS. Well, thank you so much for the question. The reason that it matters so much for ranchers and farmers is that you have this tax that is imposed on assets beyond a certain level. And think about valuing those assets, think about the estate planning that has to go into that. It is very—as opposed to someone that just has a large amount of cash. It is easier to think about estate planning when you are just talking about cash but when you are talking about a cash poor but asset rich——

Mr. DOWNING. Thank you for that. I am just going to move on a little bit here. To what degree would you say our small farms and ranches are forced to divert their resources away from farming and into liquid assets, attorneys, and accountants?

Mr. BRASHERS. Yes. I mean, what you are going to end up having is these family businesses, family farms, they have to break up and in a lot of cases I can't give you a specific statistic. I can look into trying to find out those numbers for you, but it is, especially for what you are doing with this, we are talking about a tax that accounts for 0.6 percent of the federal budget. So, it is quite small and there was no meaningful impact from expanding that exemption.

Mr. DOWNING. With this potential negative impact on agricultural production, how do you believe that may or may not jeopardize our national security and interests and increase our reliance on foreign products?

Mr. BRASHERS. Yes. I mean, we are moving away from, kind of, the small business model of Americans passing on their businesses, their farms, their ranches to themselves and they may choose to sell that to foreign investors. That is absolutely a possibility.

Mr. DOWNING. So beyond agriculture are there any other small businesses or industries critical to national security that would be impacted disproportionately by the expiration of these tax cuts?

Mr. BRASHERS. The tax cuts broadly? So, yes, anyone involved in research and development is going to be a critical one. Anyone that is investing heavily is, especially where we are trying to get companies to invest here in America, invest in new equipment and machinery, these expensing provisions are critical for that.

Mr. DOWNING. Thank you.

Mr. Click, you rightfully labeled the estate tax as the, quote, " survivor's tax." Given the impact that state taxes have on grieving families shouldn't we get rid of them altogether?

Mr. CLICK. Yes, absolutely. It makes no sense. You have already paid taxes on all the money that you have earned, all the assets that you have got. And as a company like the farmers with an illiquid asset in our inventory around the country you can't just generate the cash to be able to pay that.

Mr. DOWNING. So, how would you have to adjust the operations of your small business, Patriot aluminum products, if the TCJA estate tax provision expires?

Mr. CLICK. For the company at large it just means more time on planning and money spent on consultants and attorneys instead of on inventory and employees.

Mr. DOWNING. I appreciate that.

Mr. Akers, you importantly highlight in your testimony that small businesses are deeply involved in illiquid assets that are difficult to pay off like real estate and machinery. So, can you talk more about how expansions to the estate tax could result in a liquidity crisis, as you mentioned in your testimony?

Mr. AKERS. Yes. Similar, just like farmers coming from the Iowa, we have the same issue there. When you are investing in all of those things you can't turn that into cash overnight, so if you end up having a death in the family that leads to one of those estate planning issues that money has got to come from somewhere.

You cannot do that. You don't have the liquidity to do that because your money's invested in time, in land, and materials, equipment, and that type of thing. So, it is critical and you will lose farms and businesses by doing that.

Mr. DOWNING. Thank you for your answers. I have run out of time so, Mr. Chairman, I yield.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Conaway from the great state of New Jersey for 5 minutes.

Mr. CONAWAY. Thank you, Mr. Chairman and thank you for holding this hearing today. I have been listening to a lot of the commentary and questions and answers and I just want to make a few comments.

The Tax Cuts and Jobs Act in 2017 resulted in the deficit growing by $2 trillion, Now, that deficit is something that is going to have to be dealt with and paid by average people all over this country while the benefits of that tax cut, as we know and has been documented, went to the wealthiest people in the country, to the billionaires and millionaires, and God bless them, It would be great to have that kind of money.

And he would be even greater, as they do, to often pay zero income taxes, which many people in this room, including yours truly, has to pay their taxes. And as Warren Buffett and others have pointed out, what is the fairness of that?

When you look at these policies I think, and I hope the American people will ask the question, does it seem fair to you? Are the benefits of the policy that we are bringing forward being distributed in a way that makes sense when you look at our entire population? We are one nation after all.

And this Tax Cuts and Job Act certainly didn't meet that test. It was a test for me.

And this next round of this, or the renewal of this, we are hearing now that we need to raise the debt ceiling by another $2 trillion. And we are going to see the same, kind of, just amount distribution of the benefits of this. And historically, people ought to know that in a developed economy such as ours with even robust growth rates, that this tax cut, just this last one, will never be paid for by the growth that is touted. Never happen.

Now, if you are an emerging economy where you can grow along at a clip of 7 percent, 8 percent, yes, you can pay for a tax cut like that. But in developed economies such as ours, United States, Europe, that kind of growth from what I am told by experts just will not materialize. And so, the American people need to understand that historical fact as they contemplate this next round of these cuts.

In my state of New Jersey if these cuts, to pay for these cuts, the kind of cuts that need to be made to Medicaid as an example, $14 billion comes to the state of New Jersey to help pay for insurance and a safety net that keeps a nursing home open for that sandwich generation that are taking care of their kids, trying to get them off to college and dealing with an elderly parent or other relative in a nursing home that will close if these Medicaid dollars do not come back to our state.

We are a donor state after all. Can we make up for these to keep these institutions open, hospitals, nursing homes by raising the tax revenue in New Jersey? I think New Jersey will be like many other states. We will find they won't be able to do that.

And the expansion and access to health insurance under the ACA, if these supports go away as the other side wants to do, we will see a 10 percent increase in insurance that people have to pay or people will go without and the number of uninsured in our society certainly at large in New Jersey will increase significantly.

Talking about tax increases, the tariff represents nothing but a tax increase on average people. We had an income tax in the mid-1800s. We had tariffs as well and they decided to rebalance it because the tariffs were being paid for by the poorest people, the low income people in the country.

And so they decided let's change this around. We will reinstitute an income tax and then 1 percent on $3,000 to $5,000 that would be great, but we reduced the burden on regular people. That is what happened.

Here we are, I guess, claiming that that era should be revisited upon the American people yet again, even after the experience that we ought to have with the Depression and the worldwide devastation that that caused driven by tariffs.

Now, we have, Ms. Zimmerman, and I know you deal with the IRS and I have got to get this question out really quickly, you deal with them all the time. It has been starved of resources. If you have a complicated tax situation you might get away without paying any taxes at all. Small businesses have to deal with them to get their work done. Can you comment on the starvation that has occurred to the IRS and what that means for your ability to run your business and comply with the laws most people want to do?

Ms. ZIMMERMAN. Well, I have a few seconds so I will say that we are losing about $700 billion in revenue by cutting back on the IRS' ability to enforce.

Chairman WILLIAMS. Okay, thank you. The gentlemen yields back.

I now recognize Representative McIver from the great state of New Jersey for 5 minutes.

Mrs. MCIVER. Thank you, Chairman and Ranking Member for convening this very important hearing today.

And thank you to each of our witnesses for being here today with us. As mentioned over and over today, and even in previous hearings, the small businesses are the backbone to our economy and we must ensure that our tax policies support their growth.

Tax policy can often decide whether a small business entrepreneur can hire workers, invest in themselves, their communities, or even expand. For too long the tax code has favored large corporations while small businesses are left carrying the brunt of tax burdens without sufficient help.

This is especially true now as we see the continued gutting of the Small Business Administration by the current administration in the face of a severe economic uncertainty. We must work toward a tax code that is fair and responsive to the needs of small business owners and ensure the government is meaningfully here to provide real assistance to businesses in need.

To Mr. Brashers, you were a contributor to Project 2025, which the president began implementing on day one despite previously saying he didn't know anything about it. Since then, he has followed its directives to the tee, gutting the Small Business Administration with mass layoffs, implementing tariffs, and supporting a budget that would destroy Medicaid and SNAP benefits all to create a tax code that punishes the middle and lower class while only benefiting the wealthy.

Do you agree, Mr. Brashers, that your Project 2025 has been a failure for small businesses?

Mr. BRASHERS. I appreciate the question. I am primarily here to talk about the expiring provisions of the Tax Cuts and Jobs Act.

Mrs. MCIVER. Is it a yes or no?

Mr. BRASHERS. I would disagree with that statement.

Mrs. MCIVER. Of course you would. Then why have small business entrepreneurs lost millions in wealth this week alone as our economy heads towards a recession? Why do you think that is happening?

Mr. BRASHERS. So, sorry, the Project 2025 was a collaborative effort from many conservative institutions. I was a contributor to that. It had a menu of options for a lot of different parts of the government. Some of those are being adopted, some of them are not being adopted, and that is something that the Heritage Foundation has been a part of for many years, many decades going back to the 1980s.

So, I think scapegoating Project 2025 is not accurate.

Mrs. MCIVER. Going back to the question, in your opinion as a contributor to Project 2025, what is your opinion why many small business entrepreneurs lost millions this week and why are people predicting that we are on our way to a recession?

Mr. BRASHERS. I mean, right now, obviously, we are looking at there is some uncertainty because of the tariffs and that was a conscious decision of the administration that they understand that they are trying to make deals and they are trying to negotiate on this.

And so, I am personally not involved in the tariff discussions. I don't have any insights into that and a lot of people—there is a lot of conversations presumably happening behind closed doors that I am not aware of, so I am not going to speculate as to where this all ends. And I think ultimately that is the most important thing for businesses is what the final outcome of all this is.

Mrs. MCIVER. However, was tariffs mentioned in Project 2025 plan?

Mr. BRASHERS. As a matter of fact there were two ideas. There were——

Mrs. MCIVER. Correct.

Mr. BRASHERS. On the tariff point there was a section that was written that was pro-tariff and there was also a section that was written that was anti-tariff.

Mrs. MCIVER. So, thank you for acknowledging a point that, yes, there is a lot of uncertainty around tariffs and that is why we are seeing many small entrepreneurs and small businesses lose money this week and many predicting we will be into a recession.

I will say this in ending in my comments. Women lie, men lie, but the numbers and the data don't. With that, I yield back.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Representative Morrison from the great state of Minnesota for 5 minute.

Ms. MORRISON. Thank you, Mr. Chairman and Ranking Member for holding the hearing.

And thank you to the witnesses for taking the time to testify today. I just want to start by saying I think we all agree that we want a tax system that benefits small businesses. Small businesses, as we have all said, are the backbone of our economy and keep jobs in our communities.

But I believe a tax code that benefits our small businesses is a tax code that pays also for the essential services that small businesses rely on. Millions of small business employees rely on Medicaid, for example. Thanks to the Affordable Care Act, Medicaid expansion has been crucial to decreasing the number of uninsured business employees.

Between 2013 and 2022 an additional 2-1/2 million small business employees received health insurance through Medicaid and the uninsured rate of small business workers dropped by 9 percent.

The Republican budget that the Senate passed last week and that the House will consider this week will require an $88 billion spending cut from the Energy and Commerce Committee which, by definition, will have to target Medicaid.

Additionally, the ACA premium tax credits that help cover the cost of premiums for health insurance and make health insurance more affordable for small businesses are set to expire at the end of this year. If we fail to extend these tax credits nearly 4 million Americans will become uninsured, and the average premium payment will increase by 93 percent.

90 percent of small business owners report healthcare-related tax credits are very important to their ability to afford health insurance for themselves and for their employees.

So, Ms. Zimmerman, could you help explain how cuts to Medicaid and the expiration of the ACA tax credits will impact small businesses?

Ms. ZIMMERMAN. Yes, thank you. It will definitely impact small businesses. It will force small businesses to drop coverage and lose employees to larger businesses. We will definitely lose that competitive edge. We will have to absorb more cost cutting into already thin margins or eliminating our ability to invest in growth in our companies.

And, you know, wages are going to go down to compensate for the extra cost in the benefit that. I think the smaller the business the more impact it is going to have on them for sure. It is really going to hurt main street.

Ms. MORRISON. Thank you. And you also during your testimony mentioned, I know we have had a lot of tariff questions, but I have to have a turn, too, that the tariffs announced last Wednesday have created uncertainty and unpredictability for small businesses.

Small businesses are particularly dependent on imports and rely heavily on trade for components used in manufacturing. They lack the negotiating power that larger corporations have and operate with tighter margins than big businesses.

Can you speak to what you are hearing from small businesses about how most recent tariffs will affect them? And what steps we in Congress can take to help insulate small businesses from the worst of these effects?

Ms. ZIMMERMAN. Well, Congress could take back the power of the purse to the legislative branch and consider small businesses in doing so. It has always been my understanding, I am not a history major, but I thought that was your job. Trying to figure out what to buy now for the Christmas season so we can sell then, impossible right now, impossible.

Knowing that costs are going to go up, knowing that small business owners knowing they can't compete with the big businesses of the world, we are going to very possibly get even more of a price increase than the tariffs because we are going to have to compensate for all the strangleholds the big businesses put on suppliers.

And they are going to have to make it up somewhere and, you know, threatening to quit with. I supplier doesn't make a huge difference when you are a small business it doesn't move the needle.

Ms. MORRISON. Thank you so much for your testimony, and I appreciate your reminder to Congress that we should take back the power of the purse.

Thank you, Mr. Chair.

And thanks again to the witnesses. I yield back.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Senator Justice and Baby Dog from the great state of West Virginia for 5 minutes.

Senator JUSTICE. Okay. I have Baby Dog with me here, too, you know, but she is outside. But I will just hold her right there for just a few minutes, okay?

I had the luxury and the honor of being the governor of West Virginia the last 8 years, and I can tell you just this, and I can tell you this as point blank as point blank can be.

Our small businesses in West Virginia are the backbone of us period. And with all that, our small businesses are the backbone of this entire country period. That is all there is to it

Now, I am a plain spoken guy. I challenge the media all the time. You find something that knowingly I have told you is not true, and they can't do it because I am not going to do that. You know, I was brought up in a way with my father that absolutely I was expected to tell the truth and that is what I am going to do.

With that being said, we have got to extend these tax breaks and these tax cuts. If we don't, absolutely we are going to get in real trouble. Absolutely our small businesses depend on this in every way, and if we don't watch out, you know, bad things could happen and bad things could happen really soon.

Now, with that, I have tried in the state of West Virginia to do anything and everything I could to provide additional tax breaks or tax cuts. You know, I am really proud that when we were there, you know, over the 8 years we cut taxes I think 26 different times for all kinds of different things and a lot of different agencies.

But the one thing we never lost focus with was just how important our small businesses really truly are and the fact that we have got to keep them going and keep them going in a way that is absolutely moving the ball and moving the ball forward.

Now, in addition to all that, you know, from a standpoint of a pass-through, you know, by making it accessible that really and truly we could pass through to the individual absolutely it is so, so important.

And so with that being said, we have got to continue to do exactly what we are doing or try to find even ways to make it even better now.

And in regard to the estate tax, I have got a real quick story to tell you and this is as true as true could ever be. You know, you see I don't speak from a bunch of notes. I speak, you know, from experience and from the heart.

Now, the other thing is I didn't come here as a 40-year-old looking to be a Committee Chair, you know, or whatever it may be. I came here to try to do one thing and that is in my own way shake up the world.

You see we have got so much that we have got to do here and there is so much that is screwed up about this town and absolutely from the standpoint of all the goodness that can be done if we all focused on getting off of our soapboxes and getting off of the cameras and really trying to do the job that we are supposed to do.

You see I never took anything, anything as the governor. I don't want anything now. I don't want the next hot tip. I don't want a thing for me. I want to do what our forefathers did, and I am the real deal on that.

You know, our forefathers stood up. Many of them lost their farms. Many of them lost everything they had for this unbelievable nation. And so with all that being said, that is what we all need to be doing.

Now, I am not going to go on and on about that. I just want to tell you just a story real quick. My dad died in 1993. He was an only child. He lived in a little coal camp house and if you were there, if you went there today, you know, that house has one bedroom, one bathroom,

My mom she was one of 10 kids and they never, ever, my grandparents every time I ever visited them they never had indoor plumbing. Now, so with all that being said, all of a sudden my dad worked really hard with my mom and then he built a level of riches that for all practical purposes we thought my dad was a wealthy guy, you know. And all of a sudden he died.

And he had done all kinds of estate planning and everything else and literally in 1993 I absolutely worked through all the wickets and tried to some way keep our small family business.

And with all that being said, through all that we worked, and we owned probably about 60 percent between he and I together of our small family business.

Through all that literally I sold every single thing he had, every single thing he had. And at the end of the day Jim Justice, Jimmy Justice at the time, took care of my sister and literally paid all the obligations, and it took about 3 years to be able to do it.

And what money flowed to me was zero.

Chairman WILLIAMS. The gentleman's time is up.

Senator JUSTICE. So, I would tell you just this that it is the estate planning there our small farms or whatever it may be, we got to do that, too. So, I am with you. I am with you 1,000 percent I thank you so much for letting me speak. Thank you.

Chairman WILLIAMS. The gentlemen yields back.

I now recognize Representative Cisneros from the great state of California for 5 minutes.

Mr. CISNEROS. Thank you, Mr. Chairman.

Thank you to our witnesses for being here today.

Ms. Zimmerman, the Trump administration claims it wants to restore U.S. manufacturing. The SBA even announced a Made in America manufacturing initiative, but in your testimony you mentioned corporate tax loopholes.

Does our tax code incentivize large corporations to move production back to the United States?

Ms. ZIMMERMAN. Not so much. If you have got enough planners in place you can save a lot of money by moving it in, moving it out, and bringing it back. You can cut your tax rate to 10.5 percent if you do what they call roundtripping. And, of course, I don't think any of us are doing that but the big companies certainly are because it is costing I believe $70 billion that would be available for other programs.

Mr. CISNEROS. And do these corporate tax loopholes put domestic small businesses that manufacture in the United States at a disadvantage, in your opinion?

Ms. ZIMMERMAN. Well, certainly, because they don't have the same skills and finesse available to them that the large companies do. And a lot of them being part of their community they may not take advantage of them anyway because, you know, our employees, as has been said here by my colleague next to me, they are a family. We are not going to send those jobs overseas. So, yes, a definite disadvantage.

Mr. CISNEROS. Right. And just, you know, the tax code I would say for small businesses it is already complex and it is burdensome. Did Elon Musk and DOGE cutting IRS staff, how is that going to help small businesses at all?

Ms. ZIMMERMAN. It is going to entirely make things worse. I have advocated for a long time that we go back to having a small business hotline where a small business who is trying to be compliant can call in and get some information.

They were getting to a point where they could answer some questions, at least they could answer our calls and that is all gone again with the cut in staffing.

Mr. CISNEROS. Yes. So, right now you would say, I guess again in your opinion, that just with the cuts they are not going to be more efficient and definitely they are not going to be more responsive?

Ms. ZIMMERMAN. Well, they are definitely not going to be more responsive, and they are not going to collect the dollars that we need. Ironically, they are the one agency that pays for itself if you let them enforce.

And so, it has just never been very logical to me why we would cut that back. I think we are probably going to lose, the number is huge, $700 billion I believe is the number by cutting back all that enforcement that we just added for the IRS. And that enforcement wasn't aimed at small businesses. It was coming from the top 1 percent.

Mr. CISNEROS. Yes. And look, while my colleagues claim they want tax cuts for small businesses they are also defending the Trump tariffs. And I am sure you answered this question numerous times, and I am going to ask you to answer it one more time just to give a little emphasis there, but how are these tariffs, which are really taxes, how are they going to impact small businesses?

Ms. ZIMMERMAN. They are having a huge impact on small businesses. They are causing to lose a competitive advantage against big businesses who have negotiating power with their suppliers that small businesses don't have.

They are causing them not to be able to plan how much inventory should I have in to meet the Christmas rush. Well, we have no idea because we don't know what the prices will be because we don't know what the tariffs will be because we don't know anything from day-to-day.

Mr. CISNEROS. Yes. With that, I thank you for your answers. And with that, I yield back.

Chairman WILLIAMS. The gentleman yields back.

We are almost ready to close our hearing and I want to thank everybody. Does anybody—if I give you 1 minute did you have any closing arguments that you would like to say?

Mr. Click? Well, this is not a batting order, I mean, you—yes, ma'am?

Ms. ZIMMERMAN. Very important to me, you know, I work with Small Business for America's Future and we support all small businesses. I am not by any means—some of the representatives and senators here made it sound like we were adversaries. We are not. We are in this for the same thing. We are helping our communities. We really are.

But how we can say that just extending the TCJA is the best thing is what gets me. I certainly don't want tax increases. I want an explanation of why the large companies in this country got twice the tax cut that I got and my clients got when the law went in.

And I would like that to be rebalanced so that we all can really use the level playing field without smirking as a phrase. Thank you for having me.

Chairman WILLIAMS. Next, 1 minute.

Mr. AKERS. Yes. We all have different opinions and different viewpoints on how to make this happen but if small business is truly the backbone of America, which has been expressed here by both sides of the aisle, we have no choice. We have to figure out how to get through this.

I can speak as my small business and as most of our friends. We have seen a huge impact by the tax cuts that we have been able to get, so we are going to continue to reinvest that as long as we continue to have that benefit.

Secondly, I am going to pass my business down. The fact that I can do it either easy or hard and how much money it is going to cost is going to be directly impacted by what happens in this forum. Thank you.

Mr. BRASHERS. I am actually going to agree with Ms. Anne Zimmerman on something. I think we can improve on the TCJA. I think there are things that can be done better and so I don't think it is necessarily something that should just be rubber stamped exactly as it is.

So, I think this committee and Congress has a very important job ahead to find ways to make it better, and I think it can. But with that said, I do think that the Tax Cuts and Jobs Act as it was passed was a tremendous success.

Some of the statistics out there that we haven't had a chance to mention, unemployment rate hit a 50-year low, labor force participation rate was growing at the fastest pace in 20 years, real median household income rose 7.8 percent in 2019, a record dating back to 1954.

Homeownership was growing at the fastest rate in 15 years, U.S. stocks were booming, and as I have mentioned earlier, the net wealth of the bottom 50 percent was actually at the highest level since pre-Great Recession.

Chairman WILLIAMS. Okay.

Mr. BRASHERS. The poverty rate was down so it was a tremendous success, and I think we can actually improve that.

Chairman WILLIAMS. Thank you.

Mr. Click, you are our fourth place hitter, cleanup hitter.

Mr. CLICK. Thank you, sir.

Chairman WILLIAMS. Thank you.

Mr. CLICK. Yes, I think there is a lot we can agree on. I think there are definitely opportunities to improve. I do think it is critical though to extend the existing TCJA right now, keep those in place, give some certainty to these businesses.

Keep in mind that, you know, small businesses are the backbone of America's economy. We create the jobs that pay the taxes. We are the engine of growth that is going to keep growing the country and the growth of the innovation.

Chairman WILLIAMS. Okay, thank you.

And our last person to be heard from is Congresswoman Goodlander from the great state of New Hampshire for 5 minutes.

Ms. GOODLANDER. Thank you so much, Mr. Chairman.

And thank you to our witnesses for being here today. There is a lot that we agree on. I want to start by asking each of you do you agree that our tax code is too complicated and the compliance burdens are too great?

Mr. CLICK. Yes.

Ms. ZIMMERMAN. Yes.

Mr. AKERS. Yes.

Mr. BRASHERS. Yes.

Ms. GOODLANDER. Ms.——

Chairman WILLIAMS. Yes.

Ms. GOODLANDER. Ms. Zimmerman, can I get a yes? Okay, thank you.

I want to ask you, Mr. Click, how much time and energy by way of resources does your small business have to dedicate to tax compliance?

Mr. CLICK. Yes, it is a lot. I mean, we have a professional CPA firm and we have professional staff, an absolutely fantastic person in the company who had years in public accounting to help us grow. And without her I don't think we would be where we are here today.

Ms. GOODLANDER. Well, Ms. Zimmerman, you shared with us in your written testimony that the Section 199(a) deduction is so complex that the vast majority of small business owners actually cannot determine if they qualify. Many, far too many, can't determine if they qualify and far too many can't take advantage of this.

Can you speak to, from your perspective, what you believe Congress should be doing in the days ahead to address these disparities which really hurt small businesses overwhelmingly?

Ms. ZIMMERMAN. Balance the tax cuts between big business and small business, simplify the code, give some first employee credits to give some immediate relief to people trying to enter the employer field, staff the IRS, those are a number of them.

Ms. GOODLANDER. I appreciate that. You also testified to the need to close a series of loopholes in our tax code. What top three loopholes would you advise Congress to take a hard look at closing?

Ms. ZIMMERMAN. Oh——

Ms. GOODLANDER. Or maybe just your top loophole? I come from the Live Free or Die state. We are not big on loopholes.

Ms. ZIMMERMAN. Yes. If I had to pick the top one I would probably say roundtripping. I think that, which allows corporations to pay actually a 10-1/2 percent tax instead of 21 so they are lower than even our lowest rate or right down there with it, and that costs us about $70 billion a year.

Ms. GOODLANDER. Thank you for that. Can we all agree that tariffs are taxes?

Ms. ZIMMERMAN. Yes.

Mr. CLICK. I don't think so, no.

Ms. GOODLANDER. Okay.

Well, I will ask you, Ms. Zimmerman, because you noted in your testimony that the pervasive feeling of uncertainty that small businesses are feeling I hear it every single day from small businesses all across my state. The uncertainty is crippling. The uncertainty is bad for the bottom line.

Can you speak to what you are hearing from small businesses about what threats of trade wars and tariffs that are being imposed have had on our small businesses around the country?

Ms. ZIMMERMAN. Yes. They are absolutely afraid that it is going to cut into the small business share of business in this country because they are going to get hit the worst by tariffs, increasing prices from the tariffs because they aren't able to negotiate like the big companies.

They just don't have the same ability to do that. Their suppliers, when you are 0.1 percent of your supplier instead of 50 percent of your supplier guess what? They don't listen to you. They don't negotiate with you.

And so that is going to make a huge difference to main street, huge.

Ms. GOODLANDER. Well, thank you for that.

I would like to enter into the record an article from the Concord Monitor about the Viking House, which is a small business in Concord, New Hampshire, in my district. It shares the story of Emily Glavin who runs this small business. She has been doing so over for over a decade.

She weathered the COVID-19 pandemic. She put her heart and soul into this business. And what she sees is clear, and I think it is clear to many of us in this room today that the costs from these tariffs, as she put it, " will be passed on to us." And I think she is right.

Simply put, these tariffs are taxes on hard-working people and on small businesses, on consumers, and on American families who are going to be paying the cost for trade wars, senseless trade wars.

Ms. ZIMMERMAN. A it is going to put some of the small businesses out of business.

Ms. GOODLANDER. It sure will. Well, I thank you for your testimony today.

And with that, I yield back, Mr. Chairman.

Chairman WILLIAMS. The gentlelady yields back.

And I want to thank our witnesses for their testimony. I want to make sure nobody runs over each other trying to get to that bathroom now we when we leave, but I want to thank you for appearing before both the House and the Senate committees today.

Now, without objection, Members have 5 House legislative days until April 30 to submit additional materials and written questions for the witnesses to the Chair. Those questions will be forwarded to the witnesses. I ask the witnesses to please respond promptly.

And again, thank you for being here. We appreciate it very much.

And if there is no further business, without objection, the joint committee hearing is adjourned.

[Whereupon, at 12:45 p.m., the Joint Committees were adjourned.]

[Ms. Anna Zimmerman did not respond to questions in a timely manner.]

APPENDIX

WRITTEN TESTIMONY OF TOM CLICK BEFORE THE SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP AND THE HOUSE COMMITTEE ON SMALL BUSINESS

PRESIDENT, CEO, AND CO-FOUNDER PATRIOT INDUSTRIES

MEMBER, NATIONAL ASSOCIATION OF ELECTRICAL DISTRIBUTORS (NAED)

HEARING: PROSPERITY ON MAIN STREET: KEEPING TAXES LOW FOR SMALL BUSINESSES

April 8th, 2025

Chairwoman Ernst, Chairman Williams and distinguished members of the Senate Committee on the Small Business and Entrepreneurship and the House Committee on Small Business, thank you for the opportunity to provide testimony on the importance of permanently extending provisions of the Tax Cuts and Jobs Act (TCJA) benefiting privately-owned businesses like Patriot Industries and our employees.

The TCJA provided several key provisions that have benefited our family owned business and work family team members, including the 20% deduction for qualified business income under Section 199A, full bonus depreciation, lower marginal tax rates across the board, doubling the standard deduction, the expanded child tax credit, and the increased estate tax exemption.

Since the passage of the 2017 Tax Cuts and Jobs Act, our investments in equipment and workers have increased, fueling economic growth at Patriot. But if Congress does not act this year, both our business and our employees will be hit with a massive tax hike.

My wife Sarah, who is with me here today, and I started Patriot in 2010 with 1,000 square feet of space and one manual conduit threading machine that I purchased on eBay for $5000. Like so many small businesses in America, we encountered both triumphs and setbacks along the way. In addition to navigating complex tax policies, burdensome regulations, and the high cost of compliance, I faced a life threatening illness. If it weren't for our entire work family pulling together during that difficult time, Patriot might not have survived. Instead, I recovered, and together we built a company that epitomizes the American Dream. Today, in 2025, Patriot has 3 USA based factories totaling 140,000 square feet and we employ nearly 100 work family team members.

While Patriot is successful today, our humble beginnings remind me of how fragile small businesses can be. The tax code plays a significant role in determining whether a company survives or shuts its doors. That's why the 2017 Tax Cuts and Jobs Act was a game changer. It reduced financial roadblocks for small businesses like ours, allowing us to reinvest, expand, and create more jobs.

One of the most impactful provisions was the 20% deduction for small businesses, which gave pass-through entities like ours the ability to compete on a level playing field with larger corporations. This crucial tax relief enabled us to grow at a faster pace and reinvest in our company and employees. The Section 199A deduction is a critical component of the TCJA that ensures Main Street businesses can remain competitive in an increasingly challenging environment. By allowing pass-through businesses to deduct up to 20% of their qualified business income, Section 199A helps level the playing field between these businesses and large C corporations, which benefited from a significant rate reduction under the TCJA. For companies like ours, which employ workers, invest in communities, and contribute to local economies, this deduction has been instrumental in supporting job creation, capital investment, and overall business growth.

If Section 199A is allowed to expire, the consequences will be severe for countless small and family-owned businesses across the country like ours. Many firms in our industry already operate on thin margins, and the sudden tax increase resulting from the loss of this deduction would mean a 20 percent tax increase at a time of great uncertainty in the economy. Worse yet, this tax hike would be borne exclusively by pass-through business – which currently supply more than 6 out of every 10 jobs nationwide – and would create a ripple effect across the American economy as a whole.

Finally, the expiration of Section 199A would no doubt force many businesses to be sold to larger corporations, thus accelerating the ongoing consolidation of economic power and shifting control away from Main Street and further into the hands of a few dominant corporations. These sales would be triggered not by market inefficiencies or poor business practices, but simply due to an uneven tax code that disproportionately benefits Wall Street over Main Street. This would weaken local economies, reduce competition, and ultimately harm American workers by limiting job opportunities and wage growth. Congress must act to preserve Section 199A to ensure that America's small businesses continue to thrive, compete, and contribute to the nation's long-term economic prosperity.

In addition to the new deduction for qualified business income, the expansion of immediate expensing laws which allowed us to write off the full cost of purchasing new equipment rather than depreciating it over decades was incredibly beneficial. This change was critical for a manufacturing company like ours, which relies on high-cost machinery. Since 2017, we've invested nearly $4 Million in advanced manufacturing equipment, significantly improving productivity and efficiency. If the law reverts to the old system, business expansion will slow, and small companies like ours will be forced to delay investments that drive innovation and job creation.

Beyond the business benefits, lowering income tax rates across the board meant that every worker kept more of their hard-earned money. The expansion of the child tax credit and the doubling of the standard deduction provided additional relief for working families, allowing them to save more and invest in their futures. If these tax cuts expire, our employees will face a direct pay cut through higher taxes, making it harder for them to afford necessities and plan for their financial security.

Beyond immediate tax relief, another critical reason Congress must act now is to prevent the devastating impact of the estate tax, or as many call it, the "death tax." Personally, I'd like to reframe it as the "Survivor's Tax" since the people who actually have to pay it are the spouses and their children. Some believe the estate tax is a well deserved "tax on the rich," in reality, it punishes family-owned businesses at the exact moment the company is being passed to the next generation.

At Patriot, we've spent years growing our company, reinvesting in equipment, expanding operations, and creating jobs. But if I were to pass away unexpectedly, the federal government could demand a 40% Survivor's Tax" on the business our family has spent our lives building. To meet that burden, my family might be forced to lay off workers or even sell the business entirely. The real danger comes from how the estate tax applies to non-liquid assets. Patriot maintains over $10 million in inventory across eleven states to meet the needs of our customers. This inventory, along with the heavy equipment we use, is considered part of the business's valuation when calculating the estate tax. Unlike large corporations with massive cash reserves, small businesses like ours don't have that kind of liquid cash available. The estate tax could easily cripple our ability to keep Patriot in the family.

To plan for paying the 40% "Survivor's Tax", family businesses must divert money away from hiring, expansion, and innovation and instead use it on attorneys, consultants, and insurance policies (which will ironically be valued as part of the Estate that is being taxed). Estate planning should be part of every company's long-term strategy, not decided by a "Black Swan Event". For the future of our company and communities, we would much rather hire more engineers and laborers than lawyers.

I have seen firsthand the benefits of the TCJA for our family business and work family team. I urge Congress to permanently extend these provisions as well as consider further reforms, such as the repeal of the estate tax, to support family businesses like Patriot Industries which are the backbone of our economy.

Thank you for the opportunity to share my perspective and I look forward to the discussion here today.

Locking in a Tax Code That Works for American Small Businesses and Entrepreneurs

Testimony Before
House Committee on Small Business and
Senate Committee on Small Business and Entrepreneurship

United States House of Representatives and United States Senate

April 8, 2025

Preston Brashers
Research Fellow for Tax Policy
Grover M. Hermann Center for the Federal Budget
The Heritage Foundation

My name is Preston Brashers. I am a Research Fellow for Tax Policy in the Grover M. Hermann Center for the Federal Budget at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

Overview

The 2017 Tax Cuts and Jobs Act included more than just tax cuts, but also structural reforms, simplifications, and base-broadening revenue raisers. In addition to some permanent changes, TCJA also temporarily suspended certain flawed elements of the tax code that had punished business owners and entrepreneurs who chose to invest in their workers and in the American economy.

TCJA addressed some of the more egregious problems that existed in the tax code until 2017. For example, it makes no sense to tax income from business investments before businesses actually earn that income. But that is effectively what happens when the tax system forces businesses to capitalize and depreciate such business expenses over many years or decades instead of allowing them to deduct those costs when determining their *current* taxable income. To address that problem, TCJA implemented full and immediate expensing for capital equipment and machinery. For five years, between 2018 and 2022, the tax treatment for these formerly depreciable capital assets was corrected, but unfortunately full and immediate expensing – also known as *bonus depreciation* – is now gradually sunsetting. One of Congress's top priorities now should be to lock in full and immediate expensing – not just for another few years, but permanently.

Similarly, Congress should address one of the unfortunate compromises of TCJA – the 5-year amortization of research and experimental costs. That provision is structured in a way that delays to a later year 90 percent of the value of deductions for expenses related to research and experimental activities (including employee compensation costs, material and supply costs, costs of obtaining a patent, and certain operations, management, and travel costs).[1] The resulting short-term financial hit from this artificially accelerated tax liability can be severe for start-up companies with limited cash flow and limited access to capital markets.

TCJA also expanded death tax (estate tax) exemptons, helping to shield family farms and businesses from a devastating 40 percent federal tax on assets passed down to family members. Allowing the death tax exemption to be cut in half (which will happen if TCJA expires) could be the death knell for some asset-rich but cash-poor small- and mid-size family businesses.

Finally, no other expiring provision in TCJA had a larger impact on the amount of taxes paid by entrepreneurs and small busineses owners than the 20% pass-through deduction, known as Section 199A. While some reforms or improvements to the design of 199A are certainly possible, simply letting the provision lapse would be unthinkable to millions of American business proprietors who claim the deduction.

This written testimony focuses on the expiring provisions that most impact small businesses. For a more comprehensive review of the expiring 2017 tax provisions, including both individual and businesss provisions, refer to the Special Report, *"What If the Trump Tax Cuts Expire? A Primer on What Is at Stake."*[2]

Expiring Business Provisions

TCJA made several changes to business tax deductions, including changes affecting the timing of business deductions. TCJA temporarily replaced the system of depreciation schedules of up to 20 years and instead allowed businesses to fully deduct the cost of equipment and machinery in the tax year that the assets are purchased and put in use. The law also required five-year amortization of research and experimental (R&E) expenditures. TCJA created a new deduction for individuals with pass-through business income (Section 199A) and added an annual limitation on how much non-business income i(ndividuals could offset with business losses in a given year. Many of TCJA's changes to business deductions are set to expire or are currently phasing out.

Phaseout of Full and Immediate Expensing for Machinery and Equipment

A key TCJA business provision—full and immediate expensing for machinery, equipment, and other assets with useful lives of up to 20 years—has been winding down since January 2023.[3] The provision, also called "bonus depreciation," allowed businesses in 2018–2022 to deduct 100 percent of the value of qualifying capital assets in the year those assets were placed in service instead of

[1] Internal Revenue Service, *Guidance on Amortization of Specified Research or Experimental Expenditures under Section 174*, Notice 2023-63, September 2023, https://www.irs.gov/pub/irs-drop/n-23-63.pdf (accessed April 3, 2025).
[2] Preston Brashers, "What If the Trump Tax Cuts Expire? A Primer on What Is at Stake," Heritage Foudnation *Special Report* No. 311, February 25, 2025, https://www.heritage.org/taxes/report/what-if-the-trump-tax-cuts-expire-primer-what-stake.
[3] 26 U.S. Code § 168(k)(6).

following the IRS's complex rules for depreciation of various asset classes.[4]

Under current law, the bonus depreciation percentage is scheduled to decrease by 20 percent per year in 2023–2026. Assuming no extension of TCJA, a company would be allowed to fully and immediately expense 40 percent of the basis of a qualifying asset purchased in 2025, while the remaining 60 percent of the asset would be subject to regular depreciation over up to 20 years (depending on the tax code classification of the asset in question).

Typically, businesses can deduct legitimate expenses as they are incurred, but depreciable assets, which are deducted over time, are the notable exception. By allowing full and immediate expensing for most capital assets, TCJA (temporarily) shifted the business tax system closer to a cash flow tax system. Under a cash flow tax system, a company's taxable income base in each period is the difference between business revenues and business expenses.[5] Such a system is simpler than one that requires capitalization of some expenses, and it has the advantage of neutrality by treating purchases of equipment and machinery the same as expenditures on supplies, utilities, or marketing. Neutrality helps ensure that companies' budget and cash flow decisions are driven by market forces, not by uneven tax treatment.

The punitive nature of long depreciation schedules for physical capital investments is especially harmful to capital-intensive industries such as manufacturing, construction, mining, and oil extraction. This unfavorable tax treatment reduces investment and inhibits the productivity and wages of workers in affected industries.

TCJA did not (temporarily or permanently) change the depreciation schedules for certain longer-lived assets such as non-residential structures and residential rental structures, which retained depreciation schedules of 39 years and 27.5 years, respectively.

Permanence for Amortization of Research Expenses

TCJA made R&E expenditures subject to five-year amortization schedules beginning in 2022.[6] Before TCJA, taxpayers could fully and immediately deduct R&E costs. Amortization, like depreciation, involves the capitalization of business expenditures—but specifically expenditures involved in creating intangible assets.

Although TCJA made R&E amortization permanent, many lawmakers and outside observers hoped it would never take effect. R&E amortization was included in the tax bill to help ensure the legislation remained within reconciliation budget constraints, but there is no sound economic basis for discouraging companies from engaging in research by denying them full and immediate expensing for those expenditures.[7]

R&E amortization follows a straight-line method, so deductions for R&E expenditures are spread

[4] 26 U.S. Code §§ 167 and 168.
[5] A cash flow tax would disregard business financing such as equity raised, loans taken, and dividends and interest paid.
[6] 26 U.S. Code § 174. Research conducted outside the United States is subject to 15-year amortization.
[7] Alex Muresianu, "R&D Amortization Hurts Economic Growth, Growth Industries, and Small Businesses," Tax Foundation, June 1, 2023, https://taxfoundation.org/blog/rd-amortization-impact/ (accessed October 22, 2024).

out evenly across a five-year period. It uses the midpoint convention, so the five-year period starts six months into the year.[8] Therefore, a $100 R&E expenditure in year 1 results in a deduction of $10 in the first tax year, $20 in years two through five, and $10 in year six.

The increase in interest rates in recent years made the delay in deductions related to amortization and depreciation more economically damaging by raising borrowing costs.

Although not technically a TCJA expiration, Congress could use the occasion of TCJA's expiration to restore full and immediate expensing for R&E.

Expiration of the Pass-Through Deduction

The 20 percent pass-through deduction is scheduled to sunset after 2025. This deduction—also known as the Section 199A deduction or the qualified business deduction—allows sole proprietors and individuals with pass-through business income to deduct 20 percent of qualifying business income.[9] The deduction effectively reduces the bottom individual tax bracket for qualifying small businesses from 10 percent to 8 percent and the top individual tax bracket from 37 percent to 29.6 percent.

The pass-through deduction does not apply to all business income of individuals. Some restrictions and limitations apply:

- Specified services trade and businesses—such as businesses engaged in health services, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, and brokerage services—face a pass-through deduction phaseout if individual taxable income exceeds $197,300 ($394,600 for married joint filers).[10]

- The pass-through deduction is limited to the greater of 50 percent of the company's W-2 wages related to the business or 25 percent of W-2 wages plus 2.5 percent of unadjusted basis in qualifying business property.[11]

TCJA included the pass-through deduction for owners of businesses that are perceived as being small or midsize to balance out TCJA's reduction in the corporate rate. (Although some large companies are organized as pass-through entities, most are structured as C corporations because of the S corporation 100 shareholder rule.[12])

While the corporate rate is lower than the current top effective pass-through tax rate, it is inaccurate to say the corporate rate is preferential.[13] Corporate income is also subject to an extra layer of tax at a 15 percent to 23.8 percent rate at the investor level when profits are ultimately distributed to the

[8] 26 U.S. Code § 174(a)(2)(B).
[9] 26 U.S. Code § 199A.
[10] 26 Code of Federal Regulations § 1.199A-5, and Internal Revenue Service, "IRS Releases Tax Inflation Adjustments for Tax Year 2025." Amounts listed are for 2024. These amounts are subject to an annual inflation adjustment.
[11] Joint Committee on Taxation, *General Explanation of Public Law 115-97.*
[12] 26 U.S. Code § 1361(b).
[13] Unlike the pass-through deduction, TCJA's reduction in the corporate rate was made permanent.

shareholders or when corporate stock is sold.

If TCJA expires outright, sole proprietors and pass-through businesses in the top tax bracket could be at a competitive disadvantage compared to corporations. The top pass-through tax rate of 39.6 percent would be similar to the combined corporate and long-term capital gains rate, but owners of pass-throughs have to pay their full tax rate up-front on all earnings, including earnings retained by the businesses. In contrast, corporate shareholders can defer investor-level taxes on earnings retained by the corporations, only paying taxes when they ultimately realize income from their investments (e.g., through dividends or stock sales).[14]

The expiration of the pass-through deduction would make organizing as a pass-through business less attractive than it is now. Some businesses would respond by reorganizing as C corporations.

Expiration of Business Loss Limitations

If TCJA expires, the current annual limitation on business losses that can be deducted on personal taxes would expire. In 2018, individuals, estates, and trusts were limited to using $250,000 of business losses ($500,000 for married joint filers) to offset income from other sources.[15] With inflation adjustments, those limits now stand at $313,000 and $626,000.[16] Individuals can carry forward any disallowed losses indefinitely to future tax years as net operating losses.

The annual cap on deductible business losses is scheduled to expire after 2025. However, some pre-existing limitations on passive business losses would continue to apply.[17]

Expansion of Death Tax (Estate and Gift Taxes)

If TCJA expires, the estate and gift tax exemption amount would be halved in 2026. TCJA temporarily doubled the estate and gift tax exemptions, allowing a total of $11.18 million (in 2018) in lifetime gifts or transfers upon death to be untaxed before the estate and gift taxes take effect.[18] The exemption amount is adjusted for inflation and stands at $13.99 million as of 2025 (it would be $7 million if not for TCJA's temporary changes).[19] The top estate tax rate is 40 percent and was unchanged by TCJA.[20] The higher tax exemption amount is scheduled to expire after 2025, but the estate tax rates would remain unchanged.

Despite the steep 40 percent tax rate, estate and gift tax revenues represent a comparatively small

[14] Before TCJA, corporations could defer investor-level taxes, as they can today. However, because the pre-TCJA corporate tax rate stood at 35 percent, there was usually a significant tax advantage to organizing as a pass-through business where circumstances allowed.
[15] 26 U.S. Code § 461(l).
[16] Internal Revenue Service, "IRS Releases Tax Inflation Adjustments for Tax Year 2025."
[17] Joint Committee on Taxation, *General Explanation of Public Law 115-97*.
[18] *Ibid.*
[19] Internal Revenue Service, "IRS Releases Tax Inflation Adjustments for Tax Year 2025."
[20] 26 U.S. Code § 2001. After taxpayers use up the $13.99 million exemption, taxable estates and gifts are subject to progressive tax brackets that max out at 40 percent. Tax rates ranging from 18 percent to 39 percent apply to taxable estates and taxable gifts below $1 million.

revenue source (averaging about 0.6 percent of federal revenues in the past decade).[21] Following TCJA, estate and gift tax revenues did not fall as dramatically as some expected. The JCT estimated that the 2018–2025 increase in the estate and gift tax exemption would reduce overall tax receipts by a total of $83 billion compared to if TCJA had not been enacted.[22] In fact, while estate and gift tax collections fell by about $6 billion each in the 2019 and 2020 fiscal years relative to 2017 and 2018, 2023 estate and gift tax collections were up by about $11 billion compared to 2017.[23]

Although the estate tax represents a minor revenue source for the United States, it can have severe ramifications for family farms and family businesses. Owners of family farms, in particular, are often "asset rich but cash poor," so the family members who inherit them are often unable to raise the funds needed to pay the estate tax unless they sell off the inherited property.

Conclusion

Small businesses are already disadvantaged by the enormous burden of federal, state, and local regulations and the challenge of tax compliance. Unlike large corporations, most small business owners and entrepreneurs must navigate these complexities with little to no help from outside consultants or in-house teams of lawyers and accountants. Small businesses cannot absorb government-imposed burdens to the extent that larger corporations can. The last thing that small businsses need is an enormous tax increase.

Collectively, the expiring TCJA provisions that benefit small businesses were an indispensable part of the 2017 legislation's success. If lawmakers hope to revitalize the economy and ensure that American small business owners and entreprenerus have the ability to succeed and thrive, then extending these provisions should be a top priority.

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[21] Office of Management and Budget, "Table 2.1—Receipts by Source: 1934–2029."
[22] Joint Committee on Taxation, *Estimated Budget Effects of the Conference Agreement for H.R.1, the Tax Cuts and Jobs Act*, December 18, 2017, https://www.jct.gov/publications/2017/jcx-67-17/ (accessed October 18, 2024).
[23] Office of Management and Budget, "Table 2.1—Receipts by Source: 1934-2029." TCJA's changes to the estate and gift tax may have also affected income tax receipts, though the effect on income taxes is unclear.

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INTERNATIONAL FRANCHISE ASSOCIATION

JERRY AKERS

FRANCHISEE/OWNER
SHARPNESS, INC DBA GREAT CLIPS AND THE JOINT CHIROPRACTIC
PALO, IOWA

TESTIMONY BEFORE THE U.S. HOUSE COMMITTEE ON SMALL BUSINESS AND THE U.S. SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

HEARING ON "PROSPERITY ON MAIN STREET: KEEPING TAXES LOW FOR SMALL BUSINESSES"

APRIL 8, 2025

Good morning, Chairs Williams and Ernst, Ranking Members Velazquez and Markey, and distinguished members of the Committees. My name is Jerry Akers, and I am a franchise business owner of Great Clips and The Joint Chiropractic. I own and operate with my wife and two daughters 33 Great Clips and four The Joint Chiropractic locations in my home state of Iowa, as well as Nebraska. I am also a co-author of the best-selling book "Live it 2 Own it" a Franchise bootstrap guidebook leading to the formation of ZDynamix – a company tasked with paving the way of success for franchise business owners.

I appreciate the invitation to appear before this Committee to share my story of small business ownership and discuss the views of local business owners everywhere as it relates to tax policy. I will focus my comments on the Section 199A deduction for qualified business income, bonus depreciation, the deductibility of interest, the estate, and tax relief for tipped workers. It is important that small business perspectives are heard by our nation's leaders.

I appear today on behalf of the International Franchise Association (IFA), the world's oldest and largest organization representing franchising worldwide. IFA works through its government relations and public policy, media relations, and educational programs to protect, enhance and promote franchising and the approximately 830,876 franchise establishments that support nearly 8.8 million direct jobs, $896.9 billion of economic output for the U.S. economy, representing almost 3 percent of the Gross Domestic Product (GDP). IFA members include franchise companies in over 300 different business format categories, individual franchisees, and companies that support the industry in marketing, law, technology, and business development.

I have experienced firsthand the remarkable impact that franchise businesses can have on local economies and communities, including their ability to create jobs, develop a skilled workforce, and foster economic growth. My wife and I have created a community of our own, employing over 250 team members that have been part of our system over the past several years. These team members are treated as an extension of our family and receive industry leading wages and Fortune 500 benefits all while working for a small franchised organization. As a multi-brand franchise owner and area developer for The Joint Chiropractic, I also assist other franchisees to create success and generate wealth in their communities. We are proud of the growth of franchising and its role in the economic recovery. Franchising had a great year in 2024, and 2025 looks to be another strong year of growth.

The Franchise Model

Franchising is perhaps the most important business growth strategy in American history. First beginning in 1731, when Ben Franklin entered into a partnership with Thomas Whitemarsh, who franchised Franklin's printing business – *The Pennsylvania Gazette*, the franchise system has served as a core American model over centuries for opportunity and entrepreneurism, contributing to robust job creation and providing foundational skills development for small business owners and workers.

When most people think of franchising, they first focus on the law, and while the law is certainly important, it is not the central tenant to understand franchising. At its core, franchising is about the relationship between the franchisor and its franchisees— how the franchisor supports its franchisees, the franchisor's brand value and how the franchisee then meets its obligations to deliver the products and services to the system's brand standards.

Often affiliated as "big business," franchising is in fact the exact opposite. A franchise is first a local business, distinguished from other local businesses because it licenses the branding and operational processes of a franchisor while operating independently in a defined market. The local owner, or franchisee, like myself, is responsible for hiring staff, organizing schedules, managing payroll, and all daily operational tasks as well as local sales and marketing. The value of franchising then lies in a strategic balance in the relationship between a franchisor and franchisee: the independence of a franchisee to manage its day-to-day operations and connections with its employees, consumers and the local community balanced with the franchise system giving aspiring small business owners a head start toward becoming their own boss, with a proven business model that can set up new business owners for success and easier access to lines of credit than a traditional business.

Despite how it is often characterized, franchising is not an industry, rather it is a business growth model used *within* nearly every industry. Like I mentioned earlier in my testimony, there are more than 300 different sectors that are represented in franchising, and franchised companies offer a huge range of products and services from lodging to fitness, home renovators to hair salons, plumbing to pest control, restaurants, security, lawn care, and yes, even to dog care services, like Camp Bow Wow. So again, franchising is utilized far beyond the fast food brands that many most associate with it. In fact, 60% of franchises are outside of the restaurant sector.

There are two principal explanations for the popularity of franchising as a method of distribution. One is that it "was developed in response to the massive amounts of capital required to establish and operate a national or international network of uniform product or service vendors, as demanded by an increasingly mobile consuming public." The other is that franchising uniquely provides an opportunity for an aspiring business owner to own their own business with a brand, concept, and system for support in place, while having the autonomy to run their own day-to-day business operations. These two motivations are consistent with a business model in which the licensing and protection of the trademark rests with the franchisor, and the capital investment and direct management of day-to-day operations of each franchise unit are the responsibility of the franchisee who owns, and receives the net profits from, its individually owned franchise unit.

It is typical in franchising that a franchisor will license, among other things, the use of its name, its products or services, and its operational processes and systems to its franchisees. The turnkey nature of operating a franchised business is why I and so many of my fellow franchisees purchased a franchise. Franchisees look to the franchisor to protect the trade names, trademarks and service marks (collectively the "Marks") and brand by establishing and enforcing standards on all franchisees in a system. Such standards are essential for protection of franchisees' equity in their businesses and consumers of the brand. These standards allow franchisors to maintain the uniformity and quality of product and service offerings and, in doing so, to protect their Marks, the goodwill associated with those Marks, and most importantly, consumer confidence in the Marks and brand.

2025 Franchising Economic Outlook

For the last several years, franchising has exceeded economic expectations and surpassed the rate of growth of the broader economy. Last month, IFA released its annual Franchising Economic Outlook for 2025, and for the second consecutive year, franchising is experiencing tremendous growth. The report, conducted by FRANdata, an industry-leading research and analytical firm, is IFA's annual study that details the franchise sector's performance for the past year and projected economic outlook for the year ahead. It also provides an in-depth state outlook for all 50 states and Washington, D.C.

The report positively notes that even in the face of ongoing economic uncertainty and policy headwinds in 2024, franchise growth exceeded expectations, highlighted by 2.2% growth in franchise establishments and more than189,000 new jobs. And now, as we turn the calendar year into 2025, the report notes that a stabilizing labor market, easing interest rates, and increasing optimism about our economy are expected to propel franchising further, forecasting that franchise establishments will grow an additional 2.4%.This growth is projected to create approximately 210,000 new jobs across franchising this year, bringing franchise employment to more than 9 million jobs. Some other key highlights from the report that I wanted to bring to the Committees' attention are:

- Projected growth in the number of franchise establishments is expected to increase in 2025 by more than 20,000, or 2.5%, from 830,876 total franchise establishments to 851,000 total establishments.
- Total franchise output in 2025 is projected to exceed $936.4 billion, increasing by 4.4%, from $896.9 billion in 2024.
- Franchise GDP is expected to increase at a pace of 5% to $578 billion, which significantly outpaces the 1.9% growth in the broader economy projected by the Congressional Budget Office.
- The two franchise sectors that are expected to be the fastest-growing industries in 2025 are personal services and then retail food, products, and services, anticipated to increase by 4.3% and 3.5%, respectively.
- Regionally, it is forecasted that growth in the Southeast and Southwest will outpace the rest of the U.S. franchise market this year, with output growing by 6.2% and 8.5%, respectively.
- And as it pertains to states, the top 10 fastest-growing for franchise growth are: Georgia, North Carolina, Virginia, Arizona, South Carolina, Pennsylvania, Tennessee, Florida, Colorado, and Maryland.

So, as we enter into 2025, the economic outlook for franchising is strong and promising. We have favorable economic conditions and supportive regulatory policies which are helping pave the way for such expected growth and expansion across various sectors in franchising.

The Importance of Tax Policies that Support Small Businesses

As we all know, in 2017, Congress enacted the Tax Cuts and Jobs Act (TCJA), which significantly overhauled large portions of the tax code for individuals, families, and businesses. While many of these changes for corporations were permanent, many of the individual and small business provisions are expiring at the end of this year. Several of these expiring provisions are critical to locally owned franchise businesses. I appreciate the urgency with which Congress is seeking to address these as the uncertainty created by their looming expiration is giving small businesses pause as they make investment decisions that will allow them to grow and create jobs.

Section 199A Deduction for Qualified Business Income

The TCJA created the Section 199A deduction that provides passthrough businesses with a 20% deduction for qualified business income to provide a degree of parity with the large rate cut included in the bill for C corporations. Unlike the corporate rate cut, the 199A deduction, which functions much like a reduced tax rate on qualified business income, will not be available beyond 2025 unless Congress acts. Notably, more than 95% of franchised businesses are organized as pass-throughs.

Much like the rest of small business owners, the 199A deduction has enabled me to increase investment in new equipment, technology, and facilities, driving growth and innovation, while the extra financial breathing room has allowed me to hire more employees, and provide better benefits to existing team members.

More importantly, this deduction has helped level the playing field, allowing businesses like mine to compete with larger corporations, and provide a level of financial stability that has been very valuable. The thought of these hard-earned gains being jeopardized is deeply unsettling. It's not just about numbers; it's about the livelihoods of families, the vitality of communities, and the spirit of entrepreneurship.

I urge Congress to make the pass-through deduction permanent to provide continued certainty to franchise businesses on Main Street.

Bonus Depreciation

The TCJA allowed businesses to immediately write off 100% of the cost of capital investments in qualified property placed in service after September 27, 2017, and before January 1, 2023. This provision encourages businesses of all sizes to make investments that will boost wages and increase hiring. Unfortunately, bonus depreciation has already begun to phase out. It stands at 40% for this year and will be phased out entirely in 2027 absent Congressional action.

Bonus depreciation allows businesses to deduct a large percentage of the cost of eligible assets in the year they are purchased. This immediate deduction significantly reduces taxable income, leading to lower tax liabilities and improved cash flow. For our businesses, this influx of cash is crucial for reinvestment, expansion, or managing operational costs. More importantly, the provision incentivizes businesses like mine to invest in new equipment, technology, and other qualifying assets, leading to increased productivity, efficiency, and overall economic growth. By allowing to make capital expenditures sooner rather than later, I have the ability to take a large deduction upfront simplifying tax planning, and reducing the complexities associated with traditional depreciation schedules.

As the bonus depreciation percentage decreases each year, the immediate tax savings for businesses also diminish. This means that businesses will have to spread out their deductions over a longer period, resulting in a delayed tax benefit. The phase-down ultimately leads to a higher tax burden for businesses in later years, as we can no longer claim the same level of immediate deductions.

The phasing down of this provision adds further complexity to long term business planning, and capital expenditure planning. Businesses must now plan for the future, knowing that the tax benefits are being reduced.

In essence, while the bonus depreciation provision provided a substantial boost to small businesses, its phase-down creates a growing concern about increased tax burdens and potential disincentives for investment. For these reasons, I strongly support restoring and making 100% bonus depreciation permanent.

Estate Tax

The TCJA made permanent the $5 million exemption, spousal transfer and stepped-up basis that was passed as part of the American Taxpayer Relief Act of 2012 and increased the exemption to $11 million through the end of this year. These provisions are critical to allowing family businesses like mine to be passed down to the next generation without selling or taking on crushing debt burdens.

Estate taxes can pose a substantial burden on family-owned businesses when the owners pass away. Without careful planning, heirs may be forced to sell off parts or all of the business to cover the tax liability. The TCJA's increased estate tax exemption helps maintain the business's continuity and preserves the family's legacy. Family businesses often have significant value tied up in illiquid assets, such as property, equipment, and inventory. Paying a large estate tax can create a liquidity crisis. By increasing the exemption, the TCJA has lessened the immediate financial strain on these businesses, enabling our families to focus on long-term strategic planning rather than worrying about immediate tax liabilities.

This is very personal to me – as I mentioned at the beginning of my testimony, our daughters are minority partners at this time in our Great Clips locations and will eventually own 100% of that business. Whether or not that generational transfer can happen – hopefully many years from now – may well depend on whether Congress acts.

Deductibility of Interest

Under the TCJA, prior to January 1, 2022, businesses' interest expense deductions were limited by section 163(j) to 30% of their earnings before interest, tax, depreciation, and amortization (EBITDA). Interest deductions are now limited to 30% of earnings before interest and tax (EBIT) – a stricter limitation. This change, combined with rising interest rates, is proving to make incremental investments by small businesses much more expensive. On average, a business affected by the change could see a three-fold increase in its incremental tax burden, facing both higher interest rates when financing improvements and a very high tax rate.

While I understand the rationale for wanting to discourage undue leverage, for small businesses, it hinders our growth. I urge Congress to restore this limitation to an EBITDA basis.

Tax Relief for Tipped Workers

President Trump's proposal to eliminate taxes on tips helps workers and small business owners alike. As a salon owner, I can tell you this proposal would provide meaningful tax relief to my employees who rely on tips as a significant part of their income. The most immediate effect would be a substantial increase in the amount of money our team members keep. Currently, a portion of their tip income is subject to federal and, in some cases, state income taxes, as well as payroll taxes. Removing these taxes would mean they retain the full value of their tips.

I am particularly grateful that Members of Congress have recognized that it is important to provide parity across businesses where tipping is common.

Other Policy Concerns – Joint Employer

Finally, I would like to highlight a regulatory issue that has the potential to not only strengthen the franchise business model. That is, to permanently extend the 2020 National Labor Relations Board's joint employer rule.

As you are aware, in October 2023, the NLRB issued its final joint employer rule, which rewrote the standard for determining how brands and owners could be jointly responsible for the same employees under the National Labor Relations Act (NLRA). The rule threatened the ability of hundreds of thousands of local small business franchise owners, like mine, to make their own employment decisions – as it would ultimately lead to higher costs, less autonomy, and less equity for franchisees. When the joint employer standard was similarly expanded from 2015 to 2017, it cost franchised businesses $33 billion per year in operational costs and led to a 93% increase in lawsuits.

Recognizing the harm this rule would bring, both the House and Senate voted to overturn the joint employer rule in early 2024 using the Congressional Review Act (H.J. Res. 98), which I and other members of IFA commend. Then later in March 2024, a U.S. District Court judge struck down the 2023 NLRB rule, allowing for the former 2020 rule to be reinstituted.

While a reprieve from the previous NLRB's joint employer rule has been welcome news, I wanted to stress the importance that the current, common sense standard in federal labor law has on franchisees, like mine, and state that any action towards permanently preserving the current NLRB rule would not only protect both businesses and workers, but also create the regulatory conditions that allow both franchisors and franchisees to thrive, grow, and create jobs and opportunities in the communities that they serve.

Legislation such as the Save Local Business Act would help franchise small businesses tap into their potential to be an economic power engine and further assist the workforce issue. This important piece of legislation would keep the hard-earned equity of business owners like myself invested into their stores, community, and workers.

Conclusion

It is no surprise that for many small business owners like me, the TCJA provisions have been a lifeline. It has provided a sense of stability, allowing me to reinvest in my businesses, hire new employees and provide better benefits, and weather economic fluctuations. The prospect of losing that feels like a rug being pulled out from under me. The anxiety of potentially facing a significantly higher tax burden is a heavy weight to bear, especially for those who operate on tight margins.

In the already volatile economic climate, the added layer of tax uncertainty creates a sense of anxiety. Small business owners are accustomed to taking risks, but the threat of a significantly higher tax burden feels like an unfair and unpredictable obstacle.

Franchise businesses contribute significantly to our nation's economy, creating a diverse range of employment opportunities from entry-level positions to management roles. In addition, by offering a platform for individuals to become small business owners with lower risks than starting a business from scratch, franchises encourage entrepreneurship, which in turn creates more jobs and enhances local economies. It is critical that Congress continue tax policies that support franchising, and all small businesses. IFA and I are ready to be a resource in this effort. Thank you again for the opportunity to testify. I am happy to answer any questions you may have.

SMALL BUSINESS
FOR AMERICA'S FUTURE

WRITTEN TESTIMONY FOR THE JOINT HOUSE & SENATE COMMITTEE HEARING ON TAX

"Prosperity on Main Street: Keeping Taxes Low for Small Businesses"

BY ANNE ZIMMERMAN

CO-CHAIR OF SMALL BUSINESS FOR AMERICA'S FUTURE

APRIL 8, 2025

Chairman, Ranking Member, and distinguished members of the Committee, thank you for the opportunity to submit this testimony for your consideration. My name is Anne Zimmerman, and I am the President & CEO of Zimmerman & Co CPAs, Inc., an accounting firm with offices in Cincinnati and Cleveland, Ohio. I also serve as Co-chair of Small Business for America's Future—a national coalition of small business owners and leaders working to ensure policymakers prioritize Main Street by advancing policies that prioritize small business owners, our employees, and the communities we serve, through a tax code that provides economic opportunity.

As a tax professional who has spent years serving small businesses and as a small business owner myself, I bring a dual perspective to this discussion. I witness firsthand how the tax code impacts small businesses' ability to form, grow, and compete in a marketplace increasingly dominated by large corporations with vastly greater resources and influence.

The Economic Importance of Small Business

Small businesses form the backbone of the American economy. According to the Small Business Administration's Office of Advocacy, they represent 99.9% of all U.S. firms, employ 45.9% of all private sector workers, contribute 43.5% of GDP, and generate 39% of private sector payroll.[1] The entrepreneurial spirit in America remains strong, with nearly 20 million new business applications filed since 2021—a historic surge in new business formation.[2] These new entrepreneurs represent a tremendous opportunity for economic growth and job creation, but only if they receive the proper support to survive their crucial early years and thrive beyond them.

Small businesses have consistently proven their resilience and importance to American economic recovery. Following the Great Recession, small businesses created two-thirds of new jobs, and according to the U.S. Treasury Department, small businesses have created over 70% of net new jobs since 2019, outpacing their contribution of 64% in the previous business cycle.[3]

Given their central role in and importance to the American economy, small businesses deserve an economic environment that helps them thrive, including doing the hard work of creating a tax code that allows them to compete on a level playing field with large competitors and supports their success.

Despite their critical economic importance, these small businesses—especially the historic wave of new entrepreneurs—now face unprecedented challenges that threaten their ability to drive economic growth. A responsive, equitable tax code is essential to helping them navigate today's economic uncertainty.

Supporting Small Business With Responsible Tax Policy In Challenging Economic Times

Small businesses today are facing extraordinary challenges amid mounting economic uncertainty. Recent data from the MetLife and U.S. Chamber Small Business Index shows confidence falling to 62.3 in Q1 2025, erasing previous economic optimism. Meanwhile, the NFIB's Uncertainty Index has reached near-historic levels, and recently announced tariffs have sent the stock market tumbling, adding to the unpredictability facing entrepreneurs. This uncertainty is paralyzing small business planning, with 51% of small business owners in Small Business for America's Future surveys reporting they've put critical business decisions on hold until policies stabilize—representing delayed investments and frozen hiring plans across the country.

At this moment of economic vulnerability, small businesses need a tax code that provides stability and support—not one that further tilts the playing field toward large corporations while threatening the social safety net that keeps our communities healthy and our workforce productive.

As Congress considers the expiration of TCJA provisions, we face a critical choice between two fundamentally different approaches. One approach—simply extending tax cuts that primarily benefit large corporations and the wealthy—would force Americans to either accept dramatic cuts to crucial government services like Medicare, Medicaid and Social Security, to pay for it, or watch our national debt balloon to unprecedented levels. The CBO estimates that extending Section 199A alone would reduce federal revenues by nearly $700 billion over the next ten years[12]—a staggering investment for a tax provision that comprehensive research shows has delivered minimal economic benefits to most small businesses.

The consequences of these choices extend beyond balance sheets. When we cut community services to fund tax breaks for the wealthy, we weaken the very infrastructure that small businesses rely on: educated workers, healthy customers, and stable communities. Main Street entrepreneurs understand this connection—they live and work in these communities and see firsthand how public investments strengthen local economies.

A more responsible approach would focus on creating a tax code that genuinely empowers small business growth while maintaining the fiscal discipline to invest in our shared future. By ensuring large corporations pay their fair share through closing loopholes, modestly increasing corporate tax rates, and strengthening enforcement, we can generate significant revenue to fund targeted tax benefits that actually help small businesses grow without adding to our deficit or cutting vital services.

Instead of using budgetary gimmicks or bypassing parliamentary rules to push through tax cuts that would add $3.8 trillion to the deficit, we can and should implement a balanced approach. By closing corporate tax loopholes, particularly those that allow multinational corporations to pay lower effective rates than Main Street businesses, we create a level playing field while generating revenue for strategic investments in both small businesses and the communities they serve.

The expiration of TCJA provisions this year provides us an opportunity to create a tax code that works for all of Main Street, rather than making permanent old policies that failed to help most small businesses. America's entrepreneurs need a tax system that helps them navigate our current economic turbulence while building toward future growth—one that funds the community investments their employees rely on while maintaining fiscal responsibility for future generations.

As we consider how to provide tax stability during these economically turbulent times, we must honestly evaluate whether the TCJA has delivered on its promises to help small businesses thrive. The evidence clearly shows it has not.

The TCJA: Benefits for a Few Small Businesses But Little Impact for Most

While proponents of the TCJA argue it helped small businesses, a comprehensive look at the evidence reveals a more nuanced reality: while it did provide benefits to a subset of high-income business owners, it delivered little to no benefit to the majority of Main Street small businesses that form the backbone of our economy. The available research and data from multiple sources paint a consistent picture of a law that favored large corporations and wealthy business owners while offering minimal impact for typical small businesses.

The Congressional Research Service found that the main small business provision—Section 199A—was dramatically skewed toward the highest earners. For tax year 2023, more than 52% of the total dollar value of the deduction went to business owners with incomes above $500,000, who represent less than 5% of eligible taxpayers claiming the deduction. Meanwhile, business owners with incomes below $100,000 received just 12% of the benefits, despite making up over 60% of those claiming the deduction.[5]

These statistics are far more than abstract numbers—they represent real inequities I witness every day in my accounting practice. Just last week, I was preparing tax returns for clients and saw a small restaurant owner who employs 11 people receive a mere $700 in savings from the Section 199A deduction—a nice amount personally but hardly transformative for his small business. That same day, I prepared a return for someone with over $4 million in income who received more than $6,700 in savings from the same deduction, simply because of investments in real estate partnerships. This stark contrast illustrates how this deduction routinely fails to reach the small businesses it was supposed to help.

The CRA findings and my observations are reinforced by comprehensive research that analyzed administrative tax data to examine the actual economic impacts of TCJA—one of the key rationals for the provision when the law was passed. The researchers found "little evidence of supply-side effects" despite the tax benefits provided, with "no significant impact on business investment, no detectable increase in wages paid to non-owner employees, and no measurable effect on employment growth."[13]

A recent Small Business for America's Future survey of 863 politically diverse small business owners in its network confirms these research findings with real-world experiences. Only 6% of respondents increased their business investment due to the TCJA. Only 6% raised wages. A mere 3% hired more employees. Just 9% were able to pay down business debts. Most tellingly, 43% reported no positive impact whatsoever.[4]

The failure of TCJA to benefit most small businesses stems from both its design and implementation. The Section 199A deduction is so complex that more than a third of small business owners in our survey couldn't even determine if they qualified. The provision's numerous limitations, phaseouts, and exclusions create a complexity barrier that many small businesses simply can't overcome without expensive professional assistance that often mitigates any benefit they may see from the deduction.

But now, Congress has an opportunity to enact tax policies that genuinely support all small businesses. Rather than extending a flawed approach that helped some small businesses but left most behind, Congress should craft targeted policies that broadly address the needs of Main Street entrepreneurs. This means creating simple, accessible tax provisions that benefit businesses of all sizes—not just those with the resources to navigate complex tax structures or those earning high enough incomes to receive a meaningful benefit from the deductions.

When asked directly about the fairness of current provisions:

- 76% of entrepreneurs we surveyed said that wealthy individuals and large corporations benefited most from TCJA
- 57% strongly believed that large corporations received "much more favorable treatment" than small businesses
- 91% of small business owners believe the current tax code favors large corporations over small businesses

The expiration of TCJA provisions offers a perfect opportunity to correct these imbalances and create tax policies that work for all of America's small businesses, not just a privileged few.

Beyond the inequity of benefits, the TCJA actually exacerbated one of the most significant burdens facing small businesses: the overwhelming complexity of our tax code.

Tax Code Complexity: A Burden on Small Businesses

Beyond the inequity of TCJA benefits, the overwhelming complexity of our tax code has long placed a disproportionate burden on small businesses. Tax code complexity represents more than just an administrative burden—it's a significant competitive disadvantage for small businesses. While large corporations employ teams dedicated to identifying and exploiting every available loophole, small businesses struggle just to ensure basic compliance. According to the Tax Foundation, Americans will spend more than 7.9 billion hours complying with IRS tax filing and reporting requirements in 2024.[6] Though this figure covers all taxpayers, the burden falls disproportionately on small businesses that lack dedicated finance departments. The National Federation of Independent Business has estimated compliance costs small business owners $18-$19 billion per year.[7] Ninety-three percent of small business owners in our survey agree that the "tax code is too complicated for small business owners to navigate without expensive professional help" (67% strongly agreed).

As a CPA who works with small businesses, I can attest to the countless hours entrepreneurs spend on tax compliance rather than on growing their businesses. The expiration of TCJA provisions presents a rare opportunity to address both the inequity and complexity problems identified above. Rather than simply extending failed policies, Congress should implement targeted tax reforms that directly address the real challenges facing America's small businesses.

Solutions for a Small Business-Centered Tax Code

So, as you consider the expiration of TCJA provisions in 2025, I urge you to reject a simple extension of these troubled provisions and instead take the opportunity presented to create a tax code that truly works for America's small businesses. Here are the most impactful changes small business owners say you could make:[8]

A. Exempt the First $25,000 of Small Business Profit from Federal Income Tax

This straightforward provision would deliver immediate relief to entrepreneurs in their critical early years. Small business owners in our survey rated this as the most helpful potential change, with 36% ranking it as their top priority. This policy would particularly benefit early-stage and smaller businesses, allowing them to reinvest more capital into growth.

B. Simplify the Tax Code and Reduce Compliance Burdens

Tax code complexity represents more than just an administrative burden—it constitutes a significant competitive disadvantage for small businesses. Unlike large corporations with dedicated finance departments, small business owners often navigate tax compliance alone or at significant expense. Simplification would allow entrepreneurs to focus on innovation and growth rather than paperwork.

C. Create a Small Business Standard Deduction

Creating a straightforward standard deduction for small businesses would significantly reduce compliance costs and administrative burden, particularly for early-stage businesses. A simple standard deduction would be accessible to all small businesses regardless of industry and provide a clear benefit that entrepreneurs can count on as they build their businesses.

D. Establish a Tax Credit for Hiring First Employees

The transition from self-employment to employer status represents a critical growth threshold for small businesses. A targeted tax credit would help more entrepreneurs make this leap, driving job creation across the country.

These are the kind of targeted tax policies that actually help small businesses succeed—addressing their real-world challenges rather than providing windfall tax cuts to large corporations and hoping benefits somehow trickle down to Main Street.

E. Strengthen IRS Modernization to Enforce Corporate Tax Compliance

By ensuring the IRS can effectively enforce tax laws against large corporations and high-income individuals, we can raise significant revenue without adding to the deficit. This approach is far more responsible than using budgetary gimmicks or bypassing Senate rules to push through tax cuts that would add trillions to the deficit.

We do not need fiscal shortcuts to give tax cuts to huge corporations and billionaires while irresponsibly adding to our national debt burden. Responsible tax reform should be paid for by closing loopholes and improving enforcement. An overwhelming 91% of small business owners support the IRS prioritizing enforcement on high-income individuals and financial crimes.[9] This is about creating a modern and efficient IRS that can enforce a level playing field where large corporations have to play by the same rules as small businesses.

The IRS was specifically directed that modernization funding not be used to increase audits on small businesses or households making under $400,000 annually. This commitment has enabled the IRS to focus on improving service while addressing tax evasion among high-income individuals and large corporations.

Reports show measurable improvements in IRS service levels, including:

- Reduction in phone wait times from 28 minutes to 3 minutes
- Answering 3 million more calls than in the prior year
- Serving 140,000 more taxpayers in-person than during the prior year

F. Ensure Large Corporations Pay Their Fair Share

By requiring large corporations to contribute equitably to our tax system, we can fund small business-focused reforms while leveling the competitive playing field and addressing deficit concerns. Notably, 61% of small business owners we surveyed support raising the corporate tax rate to pay for new small business tax benefits.[8]

Increasing the current 21% corporate tax rate—reduced from 35% by the TCJA—to 28% would generate substantial revenue while remaining below pre-2017 levels. This moderate increase would help fund vital programs and small business supports. Conversely, proposals to further reduce the corporate rate to 15% are fiscally irresponsible and would exacerbate the already significant advantages large corporations maintain over small businesses.

The evidence clearly demonstrates that large corporations are not currently contributing their proportionate share to public finances. The Institute on Taxation and Economic Policy found that effective corporate tax rates for large profitable companies fell from an average of 22.0% before TCJA to just 12.8% after the law took effect.[4] A more balanced corporate tax structure would restore equity while generating resources to invest in small business growth, workforce development, and the community infrastructure that Main Street businesses require to succeed.

These specific improvements were made possible by Inflation Reduction Act funding according to the Treasury Department.[10] These improvements directly benefit small businesses, which often lack the resources to navigate prolonged IRS interactions or secure expensive professional representation.

G. Close Corporate Tax Loopholes

In addition to providing relief to strengthen American small businesses, Congress can also help small businesses by leveling the playing field and eliminating incentives for large multinational corporations (MNCs) to shift profits and production offshore. The current "round-tripping" loophole gives U.S. MNCs a 50% tax discount to shift both production and profits to tax havens and then sell back to U.S. consumers at a tax rate as low as 10.5% — just half the 21% corporate rate. Meanwhile, small and domestic businesses that manufacture in the United States and sell to American consumers pay full U.S. tax on their profits, putting them at a clear disadvantage.

This unfair tax structure – which small businesses can't take advantage of – encourages offshoring, increases the budget deficit, and undermines the competitiveness of American small businesses. Closing this loophole by applying the standard corporate tax rate to profits from U.S. sales would improve fairness in the tax code, discourage offshoring, and generate nearly $70 billion in revenue over ten years, according to the Penn Wharton Budget Model. This is not about punishing businesses; it is about ensuring a neutral tax system that does not tilt the playing field in favor of large multinational corporations at the expense of small businesses and American workers.

Another significant loophole is the preferential tax treatment for stock buybacks, which allows corporations to distribute profits to shareholders with fewer tax consequences than dividends, costing the Treasury up to $246 billion if the excise tax were raised to 4%. These and other loopholes create an uneven playing field where Main Street businesses must pay the full U.S. tax rate on their profits while multinational corporations with complex tax avoidance structures pay much less.

Closing these corporate tax loopholes would generate significant revenue that could fund small business tax benefits without cutting vital programs or adding to the deficit. This approach ensures fiscal responsibility while creating a more competitive environment for America's small businesses to thrive.

Conclusion

The decisions our elected leaders make about the tax code now will have profound implications for millions of small businesses across America. I urge you to do the necessary work of creating a tax system that truly levels the playing field, supports small business growth, and ensures large corporations pay their fair share without slashing vital programs or increasing the deficit.

A small business-centered tax code would:

- Provide targeted, accessible tax benefits to small businesses at all stages of growth
- Simplify compliance requirements to reduce administrative burden
- Maintain a fair competitive landscape between businesses of all sizes
- Ensure large corporations pay their fair share
- Raise revenues by closing loopholes and enforcement
- Ensure the proper functioning of our tax administration system
- Fund important investments without adding to the deficit

At this moment of unprecedented economic uncertainty, America's small businesses need meaningful tax reform that helps them navigate our current turbulent environment while positioning them for future growth. We need a tax code that doesn't just benefit the largest corporations, but one that recognizes the unique challenges faced by Main Street businesses that are the true engines of job creation and economic resilience in our communities.

By placing the needs of small businesses at the forefront of our tax code and policy choices, we can cultivate a robust economy rooted in entrepreneurship and innovation.

Thank you for the opportunity to submit this testimony. Small Business for America's Future and our network of small business owners across the country stand ready to work with you to build a tax code that truly works for Main Street.

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[1]: "Frequently Asked Questions About Small Business," Office of Advocacy, Small Business Administration, July 2024.

[2]: "Record-Shattering 20 Million Business Applications Filed Under Biden-Harris Administration," U.S. Small Business Administration, November 14, 2024.

[3]: "Small Business and Entrepreneurship in the Post-COVID Expansion," U.S. Department of the Treasury, December 18, 2024.

[4]: "Corporate Taxes Before and After the Trump Tax Law," Institute on Taxation and Economic Policy, 2022, https://itep.org/corporate-taxes-before-and-after-the-trump-tax-law/

[5]: "Section 199A Deduction: Economic Effects and Policy Issues," Congressional Research Service, February 2024.

[6]: "Tax Complexity Now Costs the U.S. Economy Over $546 Billion Annually," Tax Foundation, October 9, 2024, https://taxfoundation.org/data/all/federal/irs-tax-compliance-costs/

[7]: "NFIB: Changes to Sales Tax Act Would Mean Higher Compliance Costs for Small Business," NFIB, April 18, 2018, https://www.nfib.com/content/news/kansas/nfib-changes-to-sales-tax-act-would-mean-higher-compliance-costs-for-small-business/

[8]: Small Business for America's Future Tax Survey, December 2024-January 2025. All policy preference statistics in this section come from this source.

[9]: Small Business for America's Future Tax Survey, December 2024-January 2025. All IRS-related survey statistics in this section come from this source.

[10]: "Inflation Reduction Act 1-Year Report Card: IRS Delivers Dramatically Improved 2023 Filing Season Service, Modernizes Technology, Pursues High-Income Individuals Evading Taxes," U.S. Department of the Treasury, August 16, 2023, https://home.treasury.gov/news/press-releases/jy1695

[11]: Small Business for America’s Future Tax Survey, December 2024-January 2025. All healthcare-related survey statistics in this section come from this source.

[12]: "The Debate over Extending the Section 199A Deduction for Qualified Business Income," Brookings Institution, March 2025, https://www.brookings.edu/articles/199as-sunset/

[13]: Goodman, L., Lim, K., Sacerdote, B., & Whitten, A. (2024). "The pass-through deduction of the 2017 Tax Cut: Incidence and real effects." Journal of Public Economics, Volume 232, April 2024, 105038. https://www.sciencedirect.com/science/article/abs/pii/S0047272724002299

Questions for the Record
House Committee on Small Business & U.S. Senate Committee on Small Business and Entrepreneurship
Joint Committee Hearing on April 8, 2025

Prosperity on Main Street: Keeping Taxes Low for Small Businesses

Questions for the Record from U.S. Senator Maria Cantwell

The new tariffs, and the on-again-off-again-up-down roll-out by the administration are causing major uncertainty for small businesses across the country. And that uncertainty drives up prices for American consumers. The National Association of Manufacturers have said 56% of U.S. goods imports are manufacturing inputs. NAM also said that 87% of their small and medium-sized manufacturers indicated that they may need to raise prices, and one-third could slow hiring, because of these heavy-handed tariffs. The National Association of Homebuilders estimate the recent tariff actions will cost on average $9,200 per home. I've heard from small businesses across my state who are worried about the unpredictability of all these tariffs.

1. In Washington, a lot of innovation comes from our small businesses. How can businesses make informed decisions about product development, investments, hiring, or prices if the state of play changes so rapidly, there isn't a clearly articulated strategy, and things are so unpredictable? Thank you for asking this question as I believe it clearly illustrates the disconnect between some policymakers and small business owners. In business, the "state of play" is in constant flux and business owners must not only execute at a high level but also be able to perceive the implications of market forces which are largely out of their control. While President Trump's Tariff Strategy may appear to be unclear to some, to most business owners it should be fairly transparent. The Tariff Strategy at the most basic level is designed to place maximum pressure on Countries who have unfair Tariffs against American made goods. This is a huge opportunity for American small businesses to highlight the benefits of local production by quickly shifting consumption away from Countries with unfair policies. My personal opinion is that over the next few months deeper, long-lasting, and fair-trade deals will materialize, benefiting businesses of all sizes, and the American worker.

2. Some of our largest businesses rely on a supply chain of smaller and even very small suppliers for their manufactured goods. Can you describe the impact of the uncertainty and unpredictability on those large and small businesses? Our current situation should be seen as an incredible opportunity for businesses of all sizes to reassess the risk they are willing to accept by continuing to source products and raw materials from countries with unfair tariff policies. Mitigating risk is one of the core fundamental activities that every business owner must carefully plan and execute. The larger companies will no doubt shift business to the smaller suppliers who are best equipped to service their needs – most likely the suppliers who have effectively planned their own supply chain strategy to include domestic production will have the least exposure to countries with unfair tariff policies.

3. This hearing was about the importance of preserving tax cuts for small businesses. Tariffs are costing businesses 20-50% for goods and inputs. How do the high tariffs on goods from Vietnam and other countries now subject to high tariffs square with the desire to lower taxes? This is another question that illustrates the fundamentals that business leaders deal with on a daily basis, which are founded in basic economic principles. Markets set prices based on a number of factors. Tariffs are only one factor, and unfortunately most people don't even understand that a tariff is based upon the purchase price not the selling price. That being said, I think they work hand in hand to illustrate the need for businesses and consumers to carefully consider the Country of Origin for the products and raw materials they purchase. The 2017 TCJA overall, and especially the Section 199A deduction, is an accelerant for America's Small Businesses. It will not only fuel economic growth, it will also work to solve the supply chain issues that too many companies face when they are overly reliant on countries with unfair tariff policies.

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1. In Washington, a lot of innovation comes from our small businesses. How can businesses make informed decisions about product development, investments, hiring, or prices if the state of play changes so rapidly, there isn't a clearly articulated strategy, and things are so unpredictable?

   Companies can best succeed under a stable environment with low taxes, limited regulations, low levels of public debt, low inflation, and relatively free access to other mostly free markets. On-again, off-again tariffs can be disruptive to companies, especially those that rely heavily on imports and those that have highly integrated global supply chains. A speedy resolution to the trade negotiations, leading to lower tariffs and trade barriers between the U.S. and its allies would help enable businesses to plan and invest going forward.

   Similarly, the potential expirations of the business tax provisions in the Tax Cuts and Jobs Act (TCJA) make businesses more reluctant to commit to investments until they have certainty that the U.S. tax climate will remain favorable to investing. That is why permanence for provisions like full and immediate expensing of equipment and machinery, research and development, and goods-producing structures is so important.

2. Some of our largest businesses rely on a supply chain of smaller and even very small suppliers for their manufactured goods. Can you describe the impact of the uncertainty and unpredictability on those large and small businesses?

   Economic freedom makes it easier for companies and individuals to enter arrangements with one another to buy and sell goods and services to the mutual economic benefit of both parties to the transaction. Some large companies can vertically integrate their operations, meaning that they perform most of the parts of

their product chain "in house" and are less dependent on other companies for inputs. However, a fully integrated supply chain is seldom possible, let alone ideal, especially for complex products. There is an economic advantage to allowing specialization, because over many years and decades, some companies develop a way of doing things that is not easily replicable due to differences in knowledge, resources, skill sets, and geography, as well as historical accidents. Small businesses often find a niche in which they can succeed by specializing in one small part of the supply chain of larger businesses.

Nobel Laureate Milton Friedman skillfully described the highly integrated nature of free market economies and why they are superior to centrally planned economies in terms of productive efficiency:

> ***"Look at this lead pencil. There's not a person in the world who could make this pencil. Remarkable statement? Not at all. The wood from which it's made, for all I know, comes from a tree that was cut down in the state of Washington. To cut down that tree, it took a saw. To make the saw, it took steel. To make the steel, it took iron ore.***
>
> ***This black center, we call it lead, but it's really compressed graphite. I'm not sure where it comes from, but I think it comes from some mines in South America.***
>
> ***This red top up here, the eraser, a bit of rubber, probably comes from Malaya where the rubber tree isn't even native. It was imported from South America by some businessmen with the help of the British government.***
>
> ***This brass feral, I haven't the slightest idea where it came from. Or the yellow paint. Or the paint that made the black lines. Or the glue that holds it together. Literally thousands of people cooperated to make this pencil. People who don't speak the same language, who practice different religions, who might hate one another if they ever met.***
>
> ***When you go down to the store and buy this pencil, you are, in effect, trading a few minutes of your time for a few seconds of the time of all those thousands of people. What brought them together and induced them to cooperate to make this pencil? There was no commissar sending out orders from some central office. It was the magic of the price system. The impersonal operation of prices that brought them together and got them to cooperate to make this pencil so that you could have it for a trifling sum."*** [1]

[1] Free to Choose Network, *Free to Choose*, Vol. 1, "The Power of the Market", hosted by Milton Friedman, directed by Graham Massey, 1980, https://www.freetochoosenetwork.org/programs/free_to_choose/index_80.php?id=the_power_of_the_market (accessed May 16, 2025).

Because companies' supply chains are so complex and integrated with so many other businesses, it is almost impossible to predict the full implications of heavy-handed government policies that lead to large increases in taxes and regulations for the other businesses involved in a business's supply chain. Adapting a supply chain to work efficiently despite government-imposed barriers or interruptions in the supply chain is time-consuming and distracts business owners from focusing on best serving their customers.

3. This hearing was about the importance of preserving tax cuts for small businesses. Tariffs are costing businesses 20-50% for goods and inputs. How do the high tariffs on goods from Vietnam and other countries now subject to high tariffs square with the desire to lower taxes?

   Extending the Tax Cuts and Jobs Act is not about lowering taxes; it is about avoiding large tax increases.

   As a basic accounting identity, the relationship between taxes, tariffs, spending, and deficits is:

$$\boldsymbol{Federal\ Spending = Domestic\ Taxes + Tariffs + Other\ Net\ Receipts + Deficit}$$

   Congress is spending roughly $7 trillion per year and has racked up over $36 trillion in debt, which is making it more difficult to keep domestic taxes low for businesses and families. It is also leading to more pressure to find alternative sources of revenues, such as tariffs.

   Congress's overspending is also the cause of the United States's large debt and deficit. Inflation-adjusted federal tax receipts have increased about *50 percent* faster than the population has since 2000.[2] Inflation-adjusted federal spending has increased about *275 percent* faster than the population.[3] Inflation-adjusted federal

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[2] The U.S. Census estimates that the current U.S. population is slightly over 340 million people, compared to a population of 281.4 million in the 2000 Census. That equates to a roughly 0.8 percent annual growth rate in the population over the 24-year period from 2000 through 2024. The CPI-adjusted federal government current tax receipts increased by about 33.5 percent between the fourth quarter of 2000 and the fourth quarter of 2024. That equates to a roughly 1.2 percent average annual growth rate over that period.
Sources: https://www.census.gov/library/stories/2024/12/population-estimates.html
https://www.census.gov/data/tables/2000/dec/2000-resident-population.html
U.S. Bureau of Economic Analysis, Federal government current tax receipts [W006RC1Q027SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/W006RC1Q027SBEA (accessed May 18, 2025). U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIAUCSL (accessed May 18, 2025).

[3] CPI-adjusted federal government current expenditures have more than doubled since 2000, rising by about 102 percent between the fourth quarter of 2000 and the fourth quarter of 2024. That equates to a roughly 3 percent annual growth rate over that period. Sources: U.S. Bureau of Economic Analysis, Federal Government: Current Expenditures [FGEXPND], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/FGEXPND (accessed May 18, 2025). U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL], retrieved from

debt has increased about *580 percent* faster than the population. Reducing the growth of federal spending would help control deficits and help keep taxes from rising so rapidly.[4]

FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIAUCSL (accessed May 18, 2025).

[4] CPI-adjusted federal debt has rose by more than 250 percent between the fourth quarter of 2000 and the fourth quarter of 2024. That equates to a roughly 5.4 percent annual growth rate over that period. Sources: U.S. Department of the Treasury. Fiscal Service, Federal Debt: Total Public Debt [GFDEBTN], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GFDEBTN, (accessed May 19, 2025. U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIAUCSL (accessed May 19, 2025).

Questions for the Record
House Committee on Small Business & U.S. Senate Committee on Small Business and Entrepreneurship
Joint Committee Hearing on April 8, 2025

Prosperity on Main Street: Keeping Taxes Low for Small Businesses

Questions for the Record from U.S. Senator Maria Cantwell

The new tariffs, and the on-again-off-again-up-down roll-out by the administration are causing major uncertainty for small businesses across the country. And that uncertainty drives up prices for American consumers. The National Association of Manufacturers have said 56% of U.S. goods imports are manufacturing inputs. NAM also said that 87% of their small and medium-sized manufacturers indicated that they may need to raise prices, and one-third could slow hiring, because of these heavy-handed tariffs. The National Association of Homebuilders estimate the recent tariff actions will cost on average $9,200 per home. I've heard from small businesses across my state who are worried about the unpredictability of all these tariffs.

1. In Washington, a lot of innovation comes from our small businesses. How can businesses make informed decisions about product development, investments, hiring, or prices if the state of play changes so rapidly, there isn't a clearly articulated strategy, and things are so unpredictable?

   Senator, business face uncertainty from Washington every day of every year often with little semblance of a plan. Today is no different! On any given day we are juggling decisions based on uncertainty as to taxes or regulations which to many of us seem to change with the winds in DC! Claiming that the current "uncertainty" is more or different than other days is simply not the case in the eyes of most astute business owners.

2. Some of our largest businesses rely on a supply chain of smaller and even very small suppliers for their manufactured goods. Can you describe the impact of the uncertainty and unpredictability on those large and small businesses?

   My business and most of those I visit with look at this issue you refer to as a minor inconvenience! Supply chains were stressed and broken during Covid and business learned to react and adjust which they are once again doing. Astute business people either know of or research and find other suppliers of same/similar products sourced from venues impacted less or not at all by Tariffs. At the very least business chooses to buy tariffed products in minimal quantities and adjust pricing accordingly.

3. This hearing was about the importance of preserving tax cuts for small businesses. Tariffs are costing businesses 20-50% for goods and inputs. How do the high tariffs on goods from Vietnam and other countries now subject to high tariffs square with the desire to lower taxes?

Once again, tariffs can be minimized or avoided by most businesses with simple research and adjustments. Taxes on the other hand are difficult to avoid and we have to pay expensive CPA's to help us find ways to minimize the impacts of them on our business and our lives. Additionally taxes are seemingly forever where tariffs, even if accepted at some level become a moot point as the tariffs go away or the market replaces tariffed items with other sources.

ACEC

AMERICAN COUNCIL OF ENGINEERING COMPANIES

April 8, 2025

Representative Roger Williams
Chairman
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Representative Nydia Velazquez
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Senator Joni Ernst
Chair
Committee on Small Business & Entrepreneurship
U.S. Senate
Washington, DC 20510

Senator Ed Markey
Ranking Member
Committee on Small Business & Entrepreneurship
U.S. Senate
Washington, DC 20510

Dear Chairman Williams, Ranking Member Velazquez, Chair Ernst, and Ranking Member Markey:

On behalf of the American Council of Engineering Companies (ACEC) – the business association of the nation's engineering industry – I appreciate the opportunity to share our priorities in the 2025 tax policy debate.

Founded in 1906, ACEC is a national federation of 51 state and regional organizations representing more than 5,500 engineering firms and 600,000+ engineers, surveyors, architects, and other specialists nationwide. ACEC member firms drive the design of America's infrastructure and built environment.

Almost 75 percent of ACEC member firms have 50 or fewer employees and the impact of federal tax policy on these small businesses is significant. Engineering firms used the financial flexibility of lower taxes due to the Tax Cuts and Jobs Act to grow and strengthen their businesses. According to a recent survey of ACEC members, 82 percent of respondents invested in people through hiring, salary increases, and retention measures. Over half of firms also invested in technology, research and development, and other capital expenditures.

A key priority for the engineering industry is making the Section 199A passthrough deduction permanent and retaining the 21 percent corporate tax rate in order to maintain balanced tax treatment of all business structures. Approximately one-third of ACEC member firms are organized as C corporations and two-thirds are organized as passthrough entities, including S corporations, LLCs, partnerships, and sole proprietorships.

ACEC strongly supports the Main Street Tax Certainty Act, introduced in the House by Representative Lloyd Smucker (R-PA) and in the Senate by Senator Steve Daines (R-MT), which would make Section 199A permanent.

As innovators that facilitate economic growth through infrastructure design, engineering firms have faced significant challenges due to the change to R&D amortization in 2022. Amortization of R&D expenses is causing substantial cash flow problems and forcing firms to put hiring on hold, delay investments in technology, and reconsider plans to grow. Firms need to offer increasingly higher salaries in order to compete for scarce engineering talent and have been hindered from doing so by the huge tax bills created by the R&D amortization requirement. Businesses that are growing will never fully catch up in terms of cash flow as their tax bills also grow.

ACEC urges Congress to restore full deductibility of R&D expenses and strongly supports the American Innovation and R&D Competitiveness Act of 2025, introduced in the House by Representatives Ron Estes (R-KS) and John Larson (D-CT) and soon to be introduced in the Senate by Senators Todd Young (R-IN) and Maggie Hassan (D-NH), which would repeal the R&D amortization requirement.

Employee ownership has long been the norm in the engineering industry. ACEC members include small firms with one employee-owner, larger firms with a team of employee-owners, and many firms that are 100 percent employee-owned through an employee stock ownership plan (ESOP). Engineering firms are typically owned by people who actively work at the business. Congress has consistently demonstrated bipartisan support for employee ownership and the retirement security that it provides and ACEC asks Congress to continue this support.

Finally, America's engineering industry needs more engineers in the talent pipeline to support a growing economy. Bachelor's degrees in key fields – mechanical, civil, electrical, civil/environmental, and environmental engineering – dropped from 60,207 in 2019 to 55,155 in 2023 according to the American Society for Engineering Education, while the ACEC Research Institute reports that nearly 27 percent of A/E/C workers are over the age of 55 and nearing retirement.

ACEC supports a comprehensive approach to this challenge, including tax policies that expand the ability of employers to provide educational and student loan repayment assistance to their employees. ACEC urges Congress to extend the Employer Participation in Repayment Act, which allows employers to provide student loan repayment assistance under Section 127 without it being a taxable benefit for employees.

On behalf of the nation's engineering industry, thank you for your consideration of our tax priorities and please let us know if we can assist further.

Sincerely,

Linda Bauer Darr
President & CEO

AMERICAN UNIVERSITY • KOGOD SCHOOL OF BUSINESS
KOGOD TAX POLICY CENTER

Statement to the United States Senate Committee on Small Business and Entrepreneurship in connection with the hearing on April 8, titled, "Joint House & Senate Small Business Committee Hearing: Prosperity on Main Street: Keeping Taxes Low for Small Businesses."

Professor Caroline Bruckner,
Sr. Professorial Lecturer, Accounting and Taxation
Managing Director, Kogod Tax Policy Center
Kogod School of Business, American University
4400 Massachusetts Ave., NW
Washington, D.C. 20016

April 15, 2025

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Chair Ernst, Ranking Member Markey, and Members of the U.S. Senate Committee on Small Business and Entrepreneurship (the "Committee") thank you for holding a hearing together with the U.S. House of Representatives Committee on Small Business (the "House Small Business Committee") titled, "Prosperity on Main Street: Keeping Taxes Low for Small Businesses." My name is Caroline Bruckner, and I am a tax lawyer and professor with more than two decades of private practice and public service tax experience, including several years as counsel to this Committee. I know first-hand the vital role this Committee plays in tax debates. In my current role at American University Kogod School of Business (Kogod), I teach multiple tax classes to undergraduate and graduate students and coordinate our voluntary income tax assistance (VITA) volunteer program. I volunteer every tax season alongside my students to prepare tax returns for low-income D.C. residents. I also serve as the Managing Director of the Kogod Tax Policy Center (KTPC), which conducts non-partisan research on tax administration and compliance issues specific to small businesses and entrepreneurs. Our mission is to: (1) develop and analyze tax research and related policy recommendations; 2) promote public dialogue through publications and research, congressional testimony, submissions, and engagement; and (3) educate the press and policymakers on challenges facing small businesses and entrepreneurs.

Since 2015, I have focused the KTPC research agenda, in part, on the tax and compliance issues impacting self-employed small business owners and women business owners, the overwhelming majority of which are small businesses. In connection with the April 8 hearing, I would like to raise the issue of the small business tax literacy gap in connection with tax challenges small business owners face as well as new KTPC data on women as witnesses during Congressional legislative hearings. This research is particularly relevant to this Committee's work on the 2017 tax bill (commonly referred to as the "Tax Cuts and Jobs Act" or "TCJA").[1]

1. **The Small Business Tax Literacy Gap is an Overlooked and Understudied Challenge of Small Business Owners that Continues to Grow.**

As noted by the National Taxpayer Advocate in their latest report to Congress, "[c]ertain groups of taxpayers face particular burdens due to the U.S. tax system's complexity, and limited tax literacy exacerbates these challenges. One key example is small businesses, including the self-employed. Small businesses number more than 33 million, account for 99.9 percent of U.S. businesses, and employ 61.6 million employees (45.9% of the country's workforce overall and 56.6% in rural areas)."[2] Unfortunately, tax literacy is a significant—albeit overlooked and understudied—challenge for small business owners and a factor in their tax compliance.[3]

At the same time tax literacy is important because it is the key to *functional* financial literacy. While recent state legislative efforts have focused on requiring general financial education for high school students,[4] there is no requirement that tax literacy be included in high school curricula or adult education programs. This omission is significant: tax literacy is not

[1] Pub. L. No. 115–97.

[2] National Taxpayer Advocate 2024 Annual Report to Congress 106 (Most Serious Problem #8 Tax and Financial Literacy: Limited Tax and Financial Knowledge is Causing Serious Consequences for Taxpayers), https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress/full-report.

[3] *See, e.g.*, Caroline Bruckner, KOGOD TAX POLICY CTR, SHORTCHANGED: THE TAX COMPLIANCE CHALLENGES OF SMALL BUSINESS OPERATORS DRIVING THE ON-DEMAND PLATFORM E CONOMY 1 (2016), https://www.american.edu/kogod/research/upload/shortchanged.pdf (2016); Small Business Tax Reform: Modernizing the Code for the Nation's Job Creators: Hearing Before the H. Comm. on Small Bus., 115th Cong. 5 (2017) (testimony of Caroline Bruckner), https://republicans-smallbusiness.house.gov/uploadedfiles/10-4-17_bruckner_testimony.pdf.

[4] See, e.g., Nott, Iris, "Financial Literacy Programs Can Put Young People on Solid Fiscal Footing: At least 41 states, Puerto Rico and Washington, D.C., have financial literacy bills pending in the current legislative session." National Conference of State Legislatures, (May 23, 2023), https://www.ncsl.org/state-legislatures-news/details/financial-literacy-programs-can-put-young-people-on-solid-fiscal-footing.

just a subset of financial literacy—it is foundational to it. Tax returns are essential for accessing a wide range of opportunities and benefits for small business owners, including:

- **Accessing Capital**: securing mortgages and loans (via IRS income verification programs); qualifying for credit cards, rental properties, and business capital; claiming business tax deductions and credits to offset tax liabilities
- **Offsetting Costs for Education & Healthcare**: Applying for federal student aid (FAFSA), claiming education or health care tax credits and deductions; and
- **Combatting Fraud and Identity Theft**: Proving eligibility for Social Security, health benefits, and other government programs.

Without basic tax literacy, millions of small business owners are unable to fully participate in the financial system and access the capital they need to grow their businesses, undermining many of the very goals of Congress has championed.

Since 2016, the KTPC has developed research on how millions of small business owners struggle to meet their tax filing obligations because they don't know how (or when) to comply with tax rules and, importantly, how these challenges can impact retirement savings.[5] For example, a 2023 KTPC survey of small business owners found that small businesses struggle with tax compliance because too many do not know what's due when or how to file and ultimately have to spend money to pay for tax advice or preparation services.[6] Moreover, KTPC research shows that a college degree does not guarantee essential tax literacy skills: while 76% of our respondents had a college degree (compared to 23.5% of the U.S. population), only 13.5% of our respondents learned how to do taxes in college (and only 7.5% learned how to do taxes in high school). Compounding these challenges is the fact that more than one-third of respondents reported that they never or only sometimes received tax forms from businesses that engaged them. It's not just high taxes that impact small businesses; compliance challenges posed by low tax literacy rates also play a significant role. This pain point is especially acute for small businesses that are more likely to use tax savings as a capital source to fund their operations.

2. The Consequences of Low Tax Literacy

KTPC research consistently indicates that the current tax administration system is not designed to facilitate compliance for small business owners and the independent workforce.[7] For example, tax research consistently shows that when workers' income is subject to both tax withholding and third-party information reporting, the tax filing process is typically straightforward. However, when there is no tax withholding or information reporting to IRS, as is the case with millions of independent workers, tax compliance rates drop significantly.[8] The extraordinary growth of small businesses and the independent workforce, along with the corresponding tax literacy gap has quantifiable implications for the tax gap, which is the difference between the amount of tax imposed by law and that which is ultimately collected. Last year, IRS published its latest estimate of the gross annual tax gap for 2022 and found it to be $696 billion, which was comprised of (1) nonfiling ($63 billion), (2) underreporting ($539 billion), and (3) underpayment ($94 billion). Of that $539 underreporting tax gap, IRS estimated individuals failing to report all of their business income to be as much as $194 billion, and individuals failing to correctly report their self-employment tax was $71 billion.[9] While these estimates indicate that small businesses substantially contribute to the tax gap, they don't explain why.

[5] *See, e.g.*, Bruckner, Caroline & Jonathan Forman (2022). *Women, Retirement, and the Growing Gig Workforce*. GA STATE UNIVERSITY L. REV. 2 (2022). https://readingroom.law.gsu.edu/cgi/viewcontent.cgi?article=3125&context=gsulr.

[6] Bruckner, Caroline & Barbara Robles (April 2023). The Small Business Tax Literacy Project: Understanding Tax Literacy Gaps for Small Business and the Growing Gig Workforce. Kogod Tax Policy Center in partnership with Public Private Strategies. Survey Infographic.

[7] Bruckner & Forman, *Women, Retirement & the Growing Gig Workforce*, *supra* n. 5.

[8] U.S. Government Accountability Office Statement of James R. McTigue, Director of Strategic Issues, (2019) *Tax Gap: Multiple Strategies Are Needed to Reduce Noncompliance*, before the Committee on Ways & Means, U.S. House of Representatives, https://www.gao.gov/assets/gao-19-558t.pdf.

[9] IRS Tax Gap Projections for 2022, IRS Publication 5869 (Rev. 10-2024), https://www.irs.gov/pub/irs-pdf/p5869.pdf.

Other KTPC research has found that small businesses struggle to comply with tax filing obligations because working outside of traditional employment—as a small business owner or as part of the independent workforce—often requires compliance with increased tax filing requirements with which these business owners have little familiarity and understanding (e.g., quarterly-estimated payments, self-employment tax).[10] This research is further evidenced by the latest KTPC survey results, which show that many taxpayers—even experienced small business owners—don't know how to pay their taxes (25%) or whether they even had to pay quarterly-estimated payments (approx. 33%).[11] Taken together, this indicates that poor small business tax literacy is a likely contributor to the growing tax gap.

More recently, our team has begun leveraging large language models to analyze and synthesize data from publicly available tax literacy surveys, with a particular focus on identifying common information gaps and challenges facing small business taxpayers. Our findings reaffirm a troubling but well-documented reality: low tax literacy has significant and measurable consequences—particularly for those operating on tight margins.
Among the key insights from our analysis:

- **Lack of Awareness of Free or Low-Cost Filing Options**:
  Many taxpayers, including small business owners, are unaware of low-cost filing options. For instance, only 13% of filers surveyed knew whether they qualified for IRS Free File, and awareness of other programs like VITA (Volunteer Income Tax Assistance) and TCE (Tax Counseling for the Elderly) was also extremely low.

- **High Reliance on Paid Tax Preparers, Even Among Eligible Free File Users**:
  Despite qualifying for free services, many low-income filers still pay out-of-pocket for professional tax help. One survey found that 38% of eligible filers hired a preparer despite being eligible for Free File. The burden is even greater for small business owners, 90–91% of whom rely on paid preparers. On average, these services cost $273 per return—an especially high barrier for lower-income and small business filers.

- **Fear and Anxiety Are Driving Taxpayer Behavior**:
  Fear is a major driver in taxpayers' decisions to hire professionals. The majority of filers (80–83%) report anxiety about making mistakes, missing out on refunds, or facing penalties. These fears—ranging from delayed refunds to criminal penalties—appear to discourage filers from exploring self-filing options, even when free and appropriate for their situation.

- **Widespread Gaps in Basic Tax Knowledge**:
  Many taxpayers do not understand foundational tax concepts. Survey respondents often could not identify their own tax bracket or recognize standard forms such as the W-4. Only about one in four respondents passed basic tax knowledge assessments. This lack of understanding is particularly acute among small business owners: nearly half were unfamiliar with the Small Business Deduction, a critical benefit that could reduce their tax burden.

These findings underscore the urgent need for targeted policy efforts to increase tax literacy, expand outreach around existing programs, and reduce systemic complexity that disproportionately affects small business owners and vulnerable filers. Improving access to trustworthy, low-cost tax assistance is not only a matter of fairness—it's a practical step toward empowering the backbone of our economy.

3. Recommendations for Addressing Small Business Tax Literacy Challenges

While this Committee does not have jurisdiction over tax matters specifically, this Committee can task the U.S. Small Business Administration to work with IRS and the U.S. Department of Treasury (Treasury) and other federal agencies that have financing programs targeted specifically to small businesses to work to close the small business tax literacy

[10] Bruckner & Forman, *Women, Retirement & the Growing Gig Workforce*, *supra* n. 3; Bruckner, *Shortchanged*, *supra* n. 5.
[11] Bruckner & Robles, *supra* n. 6.

gap. This Committee can also work to ensure the following recommendations are included in a tax bill to prioritize and fund tax literacy education for small businesses. In particular, this Committee should take the following steps.

A. *Request Organization of Task Force to Measure Tax Literacy Among Small Business Taxpayers*

This Committee should request language be included in the forthcoming tax bill to require IRS and Treasury work with SBA to organize a task force to study small business tax literacy issues to develop a comprehensive strategy to regularly measure and test tax literacy, and to work to incorporate tax literacy content into SBA and Treasury financial literacy programming. Together with IRS, SBA should be tasked with developing recommendations for small business and independent workforce tax literacy modules for inclusion in financial literacy and civics curricula/courses developed for SBA programs, including those prepared and distributed among SBA's networks and programs.

B. *IRS Should Coordinate Inter-Agency Tax Education Strategy*.

This Committee should urge IRS to prioritize outreach and education of small business owners and the independent workforce by forming a tax information and education coalition together with SBA, U.S. Department of Agriculture, U.S. Department of Commerce and other agencies with small business financing programs. The coalition's main charter should be promoting small business tax education to facilitate compliance and access capital through tax savings.

C. *Expanded VITA Volunteer Recruiting*.

This Committee should urge IRS to work with SBA to promote Volunteer Income Tax Assistance (VITA) program recruiting through SBA's network of programs (e.g., Small Business Development Centers; Women's Business Centers; SCORE) and other small business financing networks (e.g., CDFI networks) as well as high schools, community colleges and university students.

Going forward, IRS/SBA should collaborate on funding and employing participatory research and tax awareness and education as a wholistic methodology for learning what type and level of tax literacy has the most significant impact on small business access to capital and facilitates compliance.

4. The Ongoing Need to Hear from Women Business Owners

Finally, this Committee has a better than average record of considering the impact of tax policy on women business owners, who now represent approximately 39.1% of all U.S. enterprises.[12] These business owners have grown in both number and economic impact in recent years. According to a recent 2024 report on the state of women-owned businesses:

1. Between 2019 and 2023, the number of women-owned businesses increased at nearly double the rate of those owned by men. From 2022 to 2023, the rate of growth increased to 4.5 times that of men's;

2. From 2019 to 2023, women-owned businesses' growth rate outpaced the rate of men's by 82.4% and, in 2022 to 2023 alone, by 59.1%; and

3. In 2023, 14 million women-owned businesses employ 12.2 million people and generate $2.7 trillion in revenue.[13]

[12] Wells Fargo, *The 2024 Impact of Women-Owned Businesses* (2024). Available at: https://stories.wf.com/wp-content/uploads/2024/03/IWOB-2024-report_JD-V9_a11y.pdf.
[13] *Id*.

Although the growth of women business owners is remarkable, the ongoing challenges they have accessing capital remain. Research shows that two-thirds of women-owned firms "cannot access either some or all of the capital they need."[14] Tax savings is an obvious strategy for these business owners to access capital, however, KTPC research consistently shows that when it comes to tax matters, women business owners are often overlooked and underrepresented at legislative hearings.[15] For example, in connection with the debate over the 2017 tax reform bill, at no point did either of the tax-writing committees meaningfully consider whether the bill would specifically impact women business owners.[16] In fact, "women participated as witnesses in only seven, and no women business owners testified at the sole [U.S. Senate Committee on Finance] hearing on business tax reform. Notably, no women testified at five (42 percent) of the twelve total tax reform hearings the tax-writing committees held on tax reform."[17]

In 2024, our team published research on women testifying before Congress that found that the underrepresentation of women at congressional legislative hearings is not confined to the tax-writing committees. Specifically, our findings of more than 7,750 legislative hearings held by 16 congressional committees—including this Committee—from the 110th through the 116th Congresses show that of the 36,950 witness appearances at legislative hearings, women were underrepresented as a share of total witnesses.[18] In fact, women only appeared 9,071 times, or around 24.5% of the total.[19] During the same period, panels exclusively comprised of male witnesses totaled just under 40% of the nearly 7,750 hearings in our dataset. In contrast, excluding budget and agency oversight hearings, both of which commonly comprise a single representative from the Executive Branch (e.g., a cabinet secretary testifying at a budget hearing), women-only panels occurred a mere 83 times. In other words, just under 1.1% of all legislative hearings were women-only panels.

In November, our team presented our latest research on women testifying at tax legislative hearings at the American Tax Policy Institute Symposium on gender and tax policy. This latest research identified a total of 1068 witnesses testifying at 234 tax hearings before this Committee, the House Small Business Committee as well as the tax-writing committees during the 110th (2007) into 118th Congress (to April 2024) (the "Review Period").[20] In addition, this research includes analysis of 2,452 statements submitted in connection with the tax hearings for publication in the Congressional Record. This latest research finds that women were systemically underrepresented as witnesses at tax hearings during the Review Period. At the same time, using large language models to capture the diversity of opinions provided by witness testimony and statements for the record, we found that women provide unique information to policymakers during tax hearings.[21]

There is prior research on how women business owners benefit from—or are overlooked and underserved by—different tax provisions targeted to small business.[22] However, this Committee can play a critical role in the coming

[14] *Id*. at 21.
[15] Bruckner, Caroline (2020): ***Doubling Down on a Billion Dollar Blind Spot: Tax Reform and Women Business Owners***. AMERICAN UNIVERSITY BUSINESS LAW REVIEW, Vol. 9, Iss. 1. ***Available at***: https://digitalcommons.wcl.american.edu/cgi/viewcontent.cgi?article=1129&context=aublr
[16] Id.
[17] Id. at 17-18.
[18] Collin Coil, Caroline Bruckner, Natalie Williamson, Karen O'Connor & Jeff Gill (15 Feb 2024): *Still Underrepresented? Gender Representation of Witnesses at House and Senate Committee Hearings*, JOURNAL OF WOMEN, POLITICS & POLICY, DOI: 10.1080/1554477X.2024.2311023.
[19] Id.
[20] We reviewed published hearing transcripts and statements for the record in connection with tax hearings held by the U.S. House of Representatives Committee on Ways and Means and the U.S. Senate Committee on Finance as well as hearings organized by the U.S. Senate Committee on Small Business and Entrepreneurship and the U.S. House of Representatives Committee on Small Business.
[21] Bruckner, Caroline and Collin Coil, "Overlooked and Undervalued: An Investigation of Women Business Owners & Congressional Tax Hearings," PITTSBURG TAX REVIEW (Forthcoming 2025).
[22] Bruckner, *supra* n. 15.

months as the tax provisions from the 2017 tax reform bill are debated by working to ensure that women business owners are included as witnesses at legislative hearings. In addition, this Committee should work with the Joint Committee on Taxation to include demographic distribution data when estimates of small business tax expenditures are debated in connection with the work on improving tax policy for small business owners. Updating small business tax expenditures to make smarter, equitable investments in the small businesses who will grow our economy is a vital function of this Committee.

Again, thank you to the Committee for holding this important hearing. I stand ready to help the Committee with its work. Feel welcome to contact me with questions regarding the foregoing.

We are a biotechnology company focused on developing innovative therapies in the cardio, neurology, and rare disease space.

The requirements under IRC Section 174 caused our company to pay approximately $40M of federal income taxes between 2022 and 2023, even though we had a financial statement pretax loss of $258M and $334M respectively over that two-year period. This law had a disproportional impact to our company because, although we are not a pre-revenue R&D company, R&D still represented approximately 84% and 79% of our total operating expenses for 2022 and 2023 respectively. Well over 80% of our R&D is performed in the U.S.

If we had been permitted to expense R&D under the previous law during those years, we would have paid $2M of taxes as compared to the $40M paid in 2022 and 2023. The cash tax impact of the law was partially mitigated by the impact of the lower rate applicable to our foreign derived intangible income ("FDII") and availability of our R&D tax credits, but we used $117M of credits that would have otherwise been available to offset future tax.

In addition, although Section 174 allows amortization of research expenditures, it has an "evergreening" effect for any company that continuously conducts R&D. Through the end of 2024, Section 174 had a cumulative impact of deferring $324M of tax effected benefits.

In the absence of legislative relief, this impact will continue to incrementally grow for a period and then only be reversed as a temporary impact if we were to reduce or eliminate our investment in R&D, having the effect of converting what would otherwise have been net operating loss carryforwards into an unusable evergreen deferred tax asset. This is antithetical to the nature of our company and the biotechnology industry, and puts our ability to continue innovating for patients at a significant disadvantage.

Associated Builders and Contractors

April 8, 2025

The Honorable Joni Ernst
Chair
Senate Committee on Small Business & Entrepreneurship
U.S. Senate
Washington, DC 20510

The Honorable Ed Markey
Ranking Member
Senate Committee on Small Business & Entrepreneurship
U.S. Senate
Washington, DC 20510

The Honorable Roger Williams
Chair
U.S. House Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Nydia Velázquez
Ranking Member
House Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Chairs Ernst and Williams, Ranking Members Markey and Velázquez and Members of the Senate Committee on Small Business & Entrepreneurship and House Committee on Small Business:

On behalf of Associated Builders and Contractors, a national construction industry trade association with 67 chapters representing more than 23,000 members, I appreciate the opportunity to comment on the committee's hearing, "Prosperity on Main Street: Keeping Taxes Low for Small Businesses." The majority of ABC's general contractor and subcontractor members qualify as small businesses as defined by the Small Business Administration. The industry consistently has one of the highest concentrations of small business participation, and its members play an integral role in building America's infrastructure.

The Tax Cuts and Jobs Act included important tax relief for contractors. The scheduled expiration of many of these policies would have grave effects, not only for our contractor members, but for the construction market more broadly, specifically harming small businesses around the country. We urge the committee to support these critical tax policies, which are vital to the continued success and economic prosperity of our industry.

Maintaining Parity for Pass-Through Entities

One of the most significant achievements of the TCJA, alongside establishing an internationally competitive corporate tax rate, was its innovative approach to pass-through business taxation. Pass-through entities comprise 95% of businesses, more than 60% of private employment and over half of all business activity in the United States. The TCJA provided the pass-through sector crucial relief via two key mechanisms: an across-the-board reduction in individual tax rates and the introduction of a new 20% deduction for qualified business income. Together, these provisions reduced the effective marginal tax rate for pass-through entities to 29.6%, moving Main Street toward a level playing field with their corporate counterparts.

Recent analysis by EY reveals the stark consequences of allowing these provisions to sunset: The combination of the top individual rate returning to 39.6% and the expiration of the Section 199A deduction would trigger a 20% effective rate hike for pass-through businesses. To preserve the vitality of America's Main Street businesses, ABC strongly urges Congress to make these critical tax provisions permanent and maintain the competitive balance that has enabled small, family-owned and closely held businesses to flourish in construction and across the economy.

For this reason, ABC was proud to join over 235 trade associations in a letter supporting the Main Street Tax Certainty Act, which will help small businesses compete with large public corporations, lead to higher economic growth and more employment and help prevent a significant tax hike on the very businesses we rely on to drive our economy.

Revived Expensing of Research and Development Costs

The policy of allowing businesses to expense research and development costs immediately, rather than amortizing them over several years, is a longstanding feature of the tax code dating back to 1954. The construction industry benefits both directly and indirectly from the code's robust historical preference for R&D. Specifically, the combination of immediate cost recovery and incentives has allowed contractors to embrace innovative new tools, technologies and materials that continue to improve the efficiency, safety and sustainability of the construction process. From building information modeling and 3D printing to robotics, drones and AI, the construction industry is continually investing in and adopting cutting-edge practices that help contractors attain the highest standards of performance.

In addition to innovations in project delivery, the tax treatment of R&D is also a driver of new construction, as new technologies spur investments in everything from advanced manufacturing facilities and energy generation to storage and more efficient buildings. Unfortunately, despite bipartisan support for the expensing policy, R&D costs were required to be amortized over five years beginning in 2022, an unwelcome surprise to many contractors. Restoring immediate expensing of R&D should be a top priority.

Restoration of 100% Bonus Depreciation

Immediate expensing via 100% bonus depreciation was enacted in TCJA as a powerful incentive for businesses to invest in new equipment and technologies. This policy was based on the understanding that allowing immediate expensing of capital investments would encourage businesses to modernize their operations, increase productivity and, ultimately, drive economic growth. It was particularly aimed at capital-intensive industries like construction, where equipment investments can be substantial.

For the past five years, construction businesses have been able to expense or write off the purchase of tools, equipment and machinery the same year in which they were purchased. Unfortunately, since the end of 2022, this incentive has been phasing out and is slated to be eliminated altogether after 2026. Restoring the additional first-year depreciation allowance to 100% is crucial during this fraught time for the U.S. economy. Preserving this beneficial tax policy is essential to guaranteeing the success of key construction projects funded by bipartisan congressional legislation, including the Infrastructure Investment and Jobs Act and the CHIPS and Science Act.

America's small businesses are the backbone of our nation's economy. ABC remains committed to working together to ensure that these critical entities succeed and looks forward to being a resource to the committee for issues affecting our membership and the industry.

Sincerely,

Kristen Swearingen
Vice President, Legislative & Political Affairs

Ideas

The Tariff Man Is Coming for America's Entrepreneurs

One small business has paid nearly $30,000 in the past two months.

By Annie Lowrey

Illustration by The Atlantic. Sources: lillisphotography / Getty; Holy Polygon / Getty.

March 27, 2025

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Over the past two months, Stuart and Susan Rosen say they have paid nearly $30,000 in tariffs to the American government. Their Burbank–based small business designs costume jewelry, manufactures it in China, imports it to the United States, and sells it to department stores and online boutiques. When Donald Trump took office, he slapped a 10 percent tariff on their imports, and then another 10 percent.

Tariffs cause “a little disturbance” and require “a little bit of an adjustment period,” the president has conceded—and the Rosens confirmed. Their retail partners have declined to increase in-store prices for their necklaces and earrings, leaving their business with no choice but to eat the cost of the levy. “Trump gets online and says, *This is great! These tariffs, we’re going to make a lot of money*,” Susan told me. “Well, you’re stealing money from me.”

After this adjustment period, Trump has promised, the tariffs will “protect our businesses and our people.” Business owners will dump their foreign trading partners and foreign firms will invest in the United States. Companies will hire American workers, open American factories, and buy American goods. The trade deficit will decline and employment will go up. “Tariffs are about making America rich again,” Trump said, addressing a Joint Session of Congress earlier this month. “It’s happening.”

It sounds great. But it is not happening. Many entrepreneurs, such as the Rosens, have no practical way to onshore their supply chain. If they managed to do so, their jewelry would cost more than imported jewelry, making their business uncompetitive. If the tens of thousands of American firms relying on imported goods did the same, the country’s rate of productivity growth and consumers’ purchasing power would go down. “If we try to make every damn thing here, it’s a road to poverty,” Kimberley Clausing, an economist at UCLA, told me. “The idea that there’s going to be some sort of long-term benefit is hogwash.”

The White House is not creating a little disturbance in service of making America rich again; it’s creating a huge disturbance in service of making America poor again. Tariffs will encourage American firms to use more American products and American workers. Yet that still does not mean they will bolster American employment or improve American lives.

Washington’s yen for onshoring is bipartisan, and predates Trump by more than a decade. After the Great Recession, Barack Obama pushed a “Make It in America” plan, praising businesses that created manufacturing jobs stateside. In 2016, Trump, Bernie Sanders, and Hillary Clinton issued competing policies to promote factory employment. In 2021, Joe Biden called industrial production the “engine of American prosperity” before spending hundreds of billions of dollars on tax credits and subsidies for semiconductor factories and clean-energy plants.

This 21st-century push for 19th-century industry is about hope for the future and, perhaps even more so, fears from the past. From the 1970s to the 2000s, deindustrialization and globalization eviscerated the country's heartland, the Steel Belt corroding into the Rust Belt. It would be hard to overstate the financial and social ramifications: persistent depopulation, permanent income loss, severe regional inequality, increasing drug overdoses, rising political polarization, ascendant right-wing populism. Moreover, studies have indicated that the erosion of the country's manufacturing base might have reduced productivity and innovation economy-wide. The dislocations caused by the coronavirus pandemic and rising tensions with Beijing gave Washington a strong security justification for supporting domestic supply chains too.

A self-proclaimed "tariff man," Trump has taken these arguments to extremes, bellowing that foreign countries are ripping off Americans and promising to eliminate the country's trade deficit. "Globalization has made the financial elite, who donate to politicians, very, very wealthy," he said while campaigning against Clinton. "It has left millions of our workers with nothing but poverty and heartache." During his first term, he implemented tariffs on aluminum, steel, and $380 billion in Chinese imports, and renegotiated the North American Free Trade Agreement. In his second, he has levied tariffs on Chinese, Mexican, and Canadian goods, and is preparing tariffs on trillions of dollars of imports from around the globe.

But there is a difference between using trade policy to generate new jobs and to restore old ones, as Trump wants to do, promising to take the country back and make it great again. "Rectifying the bad things we went through in the past—and I am not minimizing that there were costs—this is not going to fix that, and I fear that it's holding out false promise," Chad Bown of Peterson Institute for International Economics told me. Tariffs aren't reparations.

Trump's nostalgia notwithstanding, the American economy was not more prosperous when a large share of its workers were toiling on assembly lines. Fifty years ago, the middle class was larger and inequality was lower. But wages and household incomes were smaller, and consumer goods were much more dear. Trade liberalization and automation made most Americans better off.

Trump's crackbrained understanding of trade economics threatens to reverse those welfare gains, and without aiding the Rust Belt. He insists that tariffs are paid by foreign exporters, when they are paid by domestic businesses and consumers, as the Rosens show. He argues that the United States' trade imbalances indicate that other countries are taking advantage of us, when it simply means that we sell fewer goods and services to foreign nations than we buy from them. (Savings rates, currency prices, industrial policy, trade barriers, and labor costs figure into countries' trade imbalances.) He argues that making everything in America would bolster GDP growth rate, when that would reduce it.

China's ascension to the World Trade Organization and decades of automation beforehand did damage the Rust Belt economy. But economists told me that trade policy has no way to reverse the phenomenon. Washington cannot dictate where business executives choose to build new plants; those decisions take into account not just tariffs but tax incentives, labor rules, the location of ports and highways, and local employment conditions. "If we try to undo the China Shock, those jobs are probably going to go to the South or Southwest"—where wages are cheaper and labor laws are laxer—"not the industrial heartland," Douglas Irwin, a trade economist at Dartmouth, told me. Place-based policies could help, he said, but "trade barriers just aren't going to do it."

When companies build plants in the United States today, they look nothing like the Manhattan garment factories and Big Three assembly lines of yore. Automation has diminished the number of manufacturing positions globally; countries such as Ethiopia and Bangladesh have seen most of their job growth in the service sector. Given the high cost of labor in the United States, manufacturing firms tend to invest heavily in robotics, machine tools, and AI systems. In the 1930s, the biggest Detroit auto plant employed more than 100,000 workers. Hyundai's new electric-vehicle plant outside Savannah is expected to employ 8,500.

Modern factories tend to be not unitary production facilities but nodes in complex, globe-spanning networks. A car finished in Illinois might contain components from Mexico, Canada, Japan, and Germany, with parts crossing in and out of the United States multiple times during assembly. "If you don't have tariff-free access to those parts, your car is going to be more expensive than the same-quality car made in South Korea or Germany," Clausing told me. Tariffs would make it "harder to make things in America, not easier," she added: A company would pay only a single tariff to import a car made entirely abroad, but multiple rounds of tariffs on a vehicle produced inside and outside the United States. Tariffs, she told me, "could decimate the U.S. auto industry."

Trump's proposed tariffs do not emphasize strategically important or high-tech industries, as prior administrations have done. As a result, "we're going to reallocate production away from stuff we were good at making and towards stuff that we're not good at making," Clausing told me, and away from crucial goods and toward trivial ones. Trump's policies could squeeze capital away from weaponry, batteries, and semiconductor chips and toward toasters, sports equipment, and, well, costume jewelry. Other countries that have engaged in this kind of autarky have generally given up, Clausing noted. “You realize that you can’t make everything yourself and it ultimately makes your citizens poor.”

Trump’s enormous tariffs would increase consumer prices and limit the quantity and quality of goods available for American households to purchase. The policies would kill off firms reliant on imported goods or parts. The misallocation of investment capital would make the country less vibrant in the long term.

Trade experts anticipate that Trump will reduce or withdraw his tariffs before that happens; business executives are likely to wait out the administration rather than scrambling their supply networks. “To really bring manufacturing back in a big way, tariffs have to be permanent,” Irwin told me. “Firms are not going to spend millions of dollars on a plant if they think the policy is going to change in three years.”

The Rosens told me that they would love to commission costume jewelry from an American factory or produce it themselves, as they used to do. Before they owned their import business, they operated a firm called Accessories du Jour. A “very vertical business,” as Susan put it, Accessories du Jour designed pieces and fabricated them in a 72,000-square-foot factory with as many as 800 employees. “We made the plastic stones. We did our own plating, our own color, our own gluing of stones, our own assembly,” Susan said. “There wasn’t anything we didn’t do.”

The cost of hiring American workers and operating in one of the most expensive regions on Earth made it impossible for the company to compete with imports from South Korea and China. “It was so sad to watch that evolution happen,” Susan told me.

Trump’s tariffs would not make Accessories du Jour a viable business today, the Rosens thought. “Reassembling that factory would take years, years, years,” and millions of dollars of investment, Susan said. “Where do you get the actual workers who want to plate, and work with chemicals all day, and glue with epoxy?” she added. “The employees that we would probably need are all being deported.”

The Rosens were looking into getting an exemption from Trump’s tariffs, on the basis that they could not find a domestic fabricator for their jewelry. I asked what would happen if the exemption did not come through. “That’s the question,” Stuart told me. “We’re very loyal to our employees. I mean, we’re stupid! What can you do?” They hope that their retailers would agree to raise retail prices. If they don’t, the Rosens might not make it through Trump’s adjustment period. They would go out of business again.

About the Author

Annie Lowrey

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Annie Lowrey is a staff writer at *The Atlantic*.

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Biotechnology Innovation Organization

Statement for the Record

Joint U.S. House and Senate Committee on Small Business

"Prosperity on Main Street: Keeping Taxes Low for Small Businesses"

April 8, 2025

The Biotechnology Innovation Organization (BIO) appreciates the opportunity to submit a statement for the record to the Joint U.S. House and Senate Committee on Small Business hearing entitled "Prosperity on Main Street: Keeping Taxes Low for Small Businesses." Helping small biotechs attract and retain capital is a significant focus for BIO, and restoring the immediate expensing of R&D expenditures is an essential step forward in removing a tax on innovation.

BIO represents approximately 1,000 member companies in a biotech ecosystem with a central mission: to advance public policy that supports a wide range of companies and academic research centers that are working to apply biology and technology in the energy, agriculture, manufacturing, and health sectors to improve the lives of people and the health of the planet. BIO is committed to speaking up for the millions of families around the globe who depend upon our success.

Our recommendation to the Committees to promote innovation in the biotechnology industry for small biotechs is to **restore the R&D deduction that was replaced by 5-year amortization in the 2017 Tax Cuts and Jobs Act (TCJA).**

The United States is a leader in biotech innovation due to significant investment in early-stage biotech companies. However, eliminating R&D expensing by the TCJA is a step backward that threatens US leadership. The current amortization regime, if maintained, could have long-term damaging effects on the economy and the biotech industry. Understanding the implications of R&D amortization on investment is crucial, particularly in lengthy, risky, and costly biotech projects.

The full scope of the damaging impacts of the provision on the smallest companies continues to reveal itself. For example, the current R&D amortization provision may impose significant tax burdens on recipients of Small Business Innovation Research/Small Business Technology Transfer (SBIR/STTR) grants. Recipients of SBIR/STTR and other government grants are generally very early-stage companies just transitioning their promising technology from an academic research institution to a company to start the development process. However, the switch to amortization has left many of these companies with a significant tax liability and left many more companies reconsidering whether even receiving the grants – which are intended to provide a critical lifeline at such an early stage of the company – is worth it.

These grants are often the first major investment the company has received, and virtually all of it is devoted to R&D expenditures. While these grants are considered taxable income to the recipient, immediate expensing previously allowed an immediate deduction that offset any tax liability. Now, however, many of these companies will face a large upfront tax bill, forcing them to divert critical funds from their research at an early make-or-break moment for the company's technology. In short, R&D amortization threatens to stifle innovative discoveries before they are even launched.

Small-to-medium companies may also feel the harmful impacts of the provision even though they don't yet have a product on the market. At this stage, small biotechs often depend on partnerships with larger companies to help fund their research. Payments received under these collaboration agreements may be treated as taxable income. These growing companies may also face a new tax liability without the ability to offset this income with the R&D deduction.

Accordingly, BIO urges immediate action to restore the R&D deduction. The current R&D amortization provision worsens the funding difficulties small biotech companies face in an already challenging investment environment. Urgent action is needed to reverse the R&D amortization provision and safeguard the future of R&D companies and the development of life-saving treatments and cures.

We thank the Committees for this opportunity to offer BIO's views on tax policies to support innovation within the biotech industry. We look forward to working with Congress on these important issues and stand ready to support in any way we can.

Engine

April 8, 2025

The Honorable Roger Williams
Chairman
House Committee on Small Business
Washington, D.C. 20515

The Honorable Joni Ernst
Chairman
Senate Committee on Small Business & Entrepreneurship
Washington, D.C. 20510

The Honorable Nydia M. Velázquez
Ranking Member
House Committee on Small Business
Washington, D.C. 20515

The Honorable Ed Markey
Ranking Member
Senate Committee on Small Business & Entrepreneurship
Washington, D.C. 20510

Dear Chairmen Williams and Ernst, Ranking Members Velázquez and Markey, and members of the House and Senate Committees on Small Business,

Engine is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. Engine works with government and a community of thousands of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship through economic research, policy analysis, and advocacy on local and national issues. We appreciate the opportunity to provide input on the implications of tax reform for small businesses and startups.

Tax policy touches on all areas of the startup ecosystem. Startup friendly tax policy can help founders stretch their limited funds, help to de-risk entrepreneurship as a career pathway, enable hiring, and incentivize investment. Conversely, unfavorable tax policy can significantly inhibit startup formation and growth.

Policies that enable startups to make their funds go further

For decades, U.S. businesses have been able to immediately expense their R&D costs—much like other countries.[1] This tax treatment was critical in driving innovation by incentivizing and enabling startups to conduct R&D, which in turn helped founders build their companies and their teams. The 2022 shift to amortization and capitalization has been disastrous for U.S. startups. Companies have been hit with significant tax bills, forcing founders to make tough decisions including laying off employees, slowing growth, and ceasing R&D activities. One San Francisco-based founder explained, "if I spend money on R&D, I will go from breakeven to showing a large profit. I cannot afford the tax bill, so I am not investing in additional R&D hires at the moment."[2]

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[1] Innovator Alliance, *Section 174: Full Expensing of Research and Development*, https://tecnatechnologycouncilsofnorthamericaca.growthzoneapp.com/ap/CloudFile/Download/P1Jwg24L.

[2] See feedback from startups at: https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/65aab57ad2e95b5842460f10/1705686396146/Startup+spotlight+R%26D+%281%29.pdf

While many companies were affected, this shift had an outsized impact on the innovation community, where novel ideas necessitate intensive R&D efforts. The resulting impact is slowed job growth, overall decline in R&D investment, and falling behind on innovation.[3] When the shift went into place, one founder told us the rule change "is a major disincentive to startup R&D. If it stays in place, it is going to materially impact startups as they invest in product development which they cannot deduct as they go, and could even cause a cash crunch for many startups at a critical time." Another founder explained that immediate expensing of R&D "allows small, early-stage technology companies to immediately re-invest those dollars in building more innovative solutions."

It is imperative that Congress immediately revert to immediate expensing for R&D costs, ideally retroactively—if not for all companies conducting R&D, for a carve out of tartups.[4]

Other policies that help startups build their businesses and stretch their funds do so by incentivizing companies, including startups, to invest in capital equipment, either through deduction or Section 168k depreciation. For startups that cannot take advantage of the Section 179 deduction, enhanced bonus depreciation helps enable new purchases of capital equipment by allowing businesses to more quickly recover the cost of those purchases. This is extremely helpful for cash strapped startups, but the provision is facing a full phase out in 2027.

Congress should restore 100 percent bonus depreciation in support of startup growth.

Policies that lower a startup's overall tax burden

As we've said in the past, lower tax liabilities mean that founders have more capital available to reinvest in and grow their companies. And, "[b]ecause corporations are taxed twice, at the business level and again at the shareholder level, a higher tax rate disincentivizes investment in businesses, including startups."[5]

But many startups are structured as pass throughs and can't avail themselves of the corporate rate. Currently, the 20 percent deduction for pass-through business income helps to equalize treatment between corporations and pass-throughs. The deduction, which, when coupled with the lower individual tax rates also implemented by TCJA, significantly lowers the top marginal rate for many startups and small businesses. If allowed to phase out at the end of the year, pass throughs will be at a significant disadvantage when compared with C corporations.

Making the 20% pass-through deduction permanent would ensure this disadvantage does not come to pass and would allow startups to better reinvest in their companies, increase employee wages, and expand their businesses.

Policies that incentivize employees to join early stage startups

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[3] Innovator Alliance, *supra* note 1.
[4] See feedback from startups at: https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/65aab57ad2e95b5842460f10/1705686396146/Startup+spotlight+R%26D+%281%29.pdf
[5] Engine, *What's on the table—and chopping block—for tax reform in 2025*, https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/66f58b203278a83768edad64/1727367968434/Engine+2025+tax+reform+two-pager+%284%29.pdf.

Launching a startup is a risky endeavor, as is joining an early stage company. Section 1202, or the Qualified Small Business (QSBS) exemption, incentivizes early employees to join startups, as well as startup investment, by permitting investors to exclude part or all of the capital gains earned when selling QSBS, if the stock is held for a minimum of five years. It is a crucial tool in a founder's toolbox when hiring, allowing startups to grow their teams at a time when they may be unable to compete with the salary packages of established companies. Without QSBS treatment, startups will struggle to hire needed talent, stifling innovation.

It is imperative that policymakers maintain the current 100% exclusion on QSBS. Policymakers should also consider expanding the tax treatment, including by expanding it to benefit more companies and through a lower, phased in holding period.[6]

Policies that incentivize entrepreneurship

As we've previously stated, launching and growing a startup is a risky endeavor that is often unaccompanied by benefits enjoyed by employees of established companies. Provisions like the child tax credit, help to provide a cushion for entrepreneurs raising families. We know tax benefits like the CTC work—during the pandemic the child tax credit was expanded, helping to enable more parents to work, including through entrepreneurship. The TCJA levels of the CTC are set to expire at the end of this year, dropping the credit to a maximum credit of $1,000 per child.

Policymakers should implement an expansion to the CTC, so that more Americans can undertake the risk associated with entrepreneurship while raising their families.

Policies that incentivize startup investment

Investment is critical to the success of the startup ecosystem. A number of policies drive investors to direct funds to innovators. The tax treatment of carried interest, for example, helps to support emerging fund managers who are more likely to issue smaller dollar checks critical to very early stage startups across the country. And favorable tax treatment for long term investments incentivizes investment in the innovation ecosystem.

Other policies, like qualified opportunity zones (OZs), which are set to expire in 2026, allow investors to temporarily defer capital gains when those gains are placed in qualifying Opportunity Funds and a permanent exclusion on capital gains when investments in qualifying Opportunity Funds are held for a minimum of 10 years. This incentive is crucial for many startups. As Omaha, NE-based founder Andrew Prystai explains, because of the benefits provided by the OZ program, his company is an example of OZs succeeding, through which they've "hired over 10 employees throughout our history, raised over $1 million in venture capital, went through a Techstars program, won the 2021 Omaha Tech Startup of the Year, and have expanded to promote events in more than 200 cities across the U.S."[7]

[6] See resources from the Innovator Alliance, at: https://innovatoralliance.org/policies
[7] Engine, *Opportunity Zones are expiring and startups need Congress to act* (Dec. 6, 2024), https://engineadvocacyfoundation.medium.com/opportunity-zones-are-expiring-and-startups-need-congress-to-act-dabbd9e509b6.

But while the OZ program is helpful, it is currently most beneficial in real estate. Reforms could be implemented to incentivize more startups to launch or relocate to OZs. Mr. Prystai explains:[8]

> [P]olicymakers could provide the same opportunity zone capital gains benefit that applies to selling our company to other equity holders like founders and employees with common stock, as currently the capital gains benefits upon sale of an OZ business are only applicable to OZ investors. They could also explore introducing other tax credits, especially refundable tax credits, that provide working capital to the businesses in the OZs as they continue growing jobs and investing in those areas.

At minimum, policymakers should reauthorize the opportunity zone program—but to truly strengthen the program, consider reform as well.

Thank you for the opportunity to provide feedback on 2025 tax reform and the potential impact on startups. We look forward to serving as a continued resource for the committee on the needs of the startup ecosystem.

Sincerely,

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[8] *Id.*

FORTUNE

The federal government is simultaneously investing in my startup–and crippling our business with a little-known tax code provision. Only Congress can save us

A seemingly innocuous provision in the 2017 Tax Cuts and Jobs Act could spell disaster for America's most innovative startups.

By Rayana Marker January 31, 2024

A provision in the tax code is threatening hundreds of early-stage, research-intensive firms. Fortunately, Congress finally seems prepared to fix the problem. But lawmakers will have to act quickly to save startups like mine.

The dilemma stems from a seemingly innocuous provision in the 2017 Tax Cuts and Jobs Act, which, among many other things, adjusted Section 174 of the tax code. Previously, that section allowed businesses to deduct the full cost of their research and development (R&D) expenses in a single year.

However, starting in 2022, the new tax law changed this longstanding practice and started requiring companies to spread out the deductions over five years. This effectively raised the yearly cost of performing scientific research, since companies could no longer claim the full R&D deduction in the year that they actually spent the money.

For small startups like mine, specifically those that have received research grants from the federal government, the change poses an existential threat to the business. Here's why.

Cellf BIO, the firm I now help lead, was founded in 2014 based on groundbreaking work in regenerative medicine. Since then, we've developed a bioengineered sphincter muscle that can be grown from patients' own cells and then implanted back into their bodies to treat their fecal incontinence. Our treatment could help millions of Americans suffering from this debilitating and quality-of-life-altering condition.

With the assistance of significant federal grant money, we were able to start Phase 1 clinical trials in 2023. We're making great progress and have successfully achieved the major milestone of the first in-human implantation of the Bio-Sphincter. But even in the best-case scenario, it is a long road ahead to win market approval from the FDA and start earning revenue.

To support our research, we have relied on Small Business Innovation Research (SBIR) grants from the Small Business Administration (SBA) and the National Institutes of Health.

For small startups like mine, specifically those that have received research grants from the federal government, the change poses an existential threat to the business. Here's why.

This SBA grant program functions as seed funding for promising startups that haven't yet raised venture capital investment. And it has proven hugely successful. 23andMe, the most recognizable name in genetic testing, initially received SBIR funding.

These federal grant programs, which are earmarked exclusively for research expenses, have always counted as taxable income. Prior to 2022, that wasn't a problem or barrier to research startups since firms could simply deduct the full cost of R&D from the equivalent amount of grant income, leaving them with no net tax liability.

In other words, the previous status quo ensured that promising startups wouldn't be penalized for winning government grants.

But now, because of the change in expensing, they are penalized. And penalized disproportionately. Our small firm, with less than five employees, faces a six-figure tax bill under the new rule. And because we don't yet have an FDA-approved product, we have no sales revenue. Currently, and like many other similarly situated research startup small businesses, our income and funding stream is almost entirely based on grants.

The government's research agencies believe in our vision and are helping ensure we can make it a reality with critical grant funding. But paradoxically, the IRS wants that money back. And new grant money is not allowed to be used to pay these taxes.

So far, we've managed to survive–and our technology is ready for outside investment. Many other startups aren't so fortunate. Some have just weeks of runway left.

Lawmakers have recognized how hard this would hit small, research-intensive companies–and now they finally seem poised to do something about it. House and Senate negotiators recently announced a deal that, among other reforms, would once again allow full expensing for research, as was the standard.

The clock is ticking for Congress to act. The urgency of this issue cannot be overstated. Jobs, small businesses, and tomorrow's life-changing innovations are on the line.

Rayana Marker is the chief operating officer of Cellf BIO LLC.

INNOVATOR
Alliance
EMPOWERING INNOVATION
THROUGH STRATEGIC TAX POLICY

April 7, 2025

The Honorable Roger Williams (R-TX)
Chairman
Committee on Small Business
2361 Rayburn House Office Building
Washington DC 20515

The Honorable Joni Ernst (R-IA)
Chair
Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510

Dear Chairman Williams and Chair Ernst,

Thank you both for conducting tomorrow's joint House and Senate full Committee hearing "Prosperity on Main Street: Keeping Taxes Low for Small Businesses." In particular, we thank you for your ongoing efforts to restore the provisions of Section 174 of the Internal Revenue Code (IRC) relating to the first-year expensing of research and development (R&D) investment by American businesses. On behalf of millions of American entrepreneurs who work every day to launch and build the new businesses that drive economic growth, job creation, and opportunity expansion, we write today to express our strong support for your work to restore this critical policy support of American innovation – at a time when our nation's status as the global innovation leader is at stake.

For nearly 70 years, American businesses have been permitted to deduct from taxable income 100 percent of R&D expenses in the year those expenses were incurred. This favorable tax treatment promoted innovation by powerfully incentivizing critical investments in research and technological advancement. Those investments led to countless scientific breakthroughs, powered economic growth, and produced many significant commercial and military advantages for the United States.

But when Congress passed the Tax Cuts and Jobs Act (TCJA) in 2017, it changed the tax treatment of R&D in order to partially off-set the revenue impact of the tax cuts. Beginning in tax year 2022, businesses are now required to amortize R&D investments over five to fifteen years, dramatically increasing their annual tax liability and disincentivizing innovation-generating investments.

The nation's startups are hit disproportionately by the change, as they tend to invest heavily in developing, testing, and improving their new product or service. A tax liability that is substantial and unexpected can be devastating for innovative but fragile new companies earning little income in the crucial early years. Indeed, for many startups across the country, the required amortization of R&D investments can be fatal. This reality is of enormous economic consequence as research has repeatedly demonstrated that startups are disproportionately responsible for the innovations that drive productivity growth and economic growth, and account for virtually all net new job creation.

TCJA's change to Section 174 is especially damaging given the strategic imperative of preserving America's innovation leadership in the face of heightened global competition, particularly from China. For decades, China has worked relentlessly to wrest the mantle of global innovation leadership from the United States. The Belt and Road global infrastructure initiative, the Made in China 2025 plan to dominate global manufacturing, and the China Standards 2035 blueprint are critical aspects of China's ambition to be the 21st century's unrivaled economic superpower – all supported by research and development spending growing at double-digit rates year after year.

In March of 2021, China released its 14th Five-Year Plan, which accelerated development of advanced technologies in seven strategic areas – artificial intelligence, quantum computing, integrated circuits, genetic and biotechnology research, neuroscience, and aerospace. China also increased R&D spending by more than 7 percent annually through the end of 2025, began work on a network of national laboratories, revised regulations to facilitate the flow of venture capital into Chinese startups, and increased bank lending and extended tax incentives to encourage more research and development.

If there were any lingering doubt about China's ambitions, President Xi Jinping was crystal clear at China's 20th Communist Party Congress in October of 2022. In a two-hour speech to open the Congress, Xi declared that China will "accelerate efforts to achieve greater self-reliance and strength in science and technology...will be guided by national strategic needs...and resolutely win the battle of key and core technologies."

China intends to win the technological and innovation future. To meet that competitive threat, America must redouble its commitment to aggressively pro-innovation policies.

Unfortunately, TCJA's change to Section 174 severely undercuts America's innovation competitiveness. As Senator Todd Young (R-IN) explained in a May 10, 2023 Op/Ed:

> "China currently provides a 200 percent 'super deduction' for R&D expenses that amounts to 20 times the amount allowed in the U.S. tax code. A manufacturing company in China that spends $100 on R&D gets to deduct $200. Even before this provision expired, the U.S. ranked 27th out of 37 OECD countries with respect to R&D incentives. Our strategic competitors know this and are taking advantage."

In addition to restoring the first-year expensing provisions of Section 174, the innovation community is also focused on three other important tax policy priorities. Founding, investing in, and working for a startup is risky by nature. In a new business' early years, tax policies can affect critical decisions that can lead to more opportunities for new companies to grow, attract capital and skilled talent, and boost productivity. Our other tax policy priorities include:

Expand favorable tax treatment of QSBS: Congress enacted the qualified small business stock (QSBS) exclusion from taxation (section 1202 of the IRC) decades ago to spur job creation and incentivize long-term investment in startups and small businesses. This important bipartisan provision exempts most startup investors, employees, and founders from capital gains taxes when selling their equity if certain conditions are met, including a five-year holding commitment. The QSBS incentive attracts capital from early-stage investors that helps entrepreneurs pursue innovative ideas and companies that fuel continued economic growth. Importantly, the favorable tax treatment of QSBS also helps promising startups attract and retain the skilled talent they need to survive and grow – while most young startups can't offer the higher salaries of more established companies, they can compensate employees with equity in the growing company. We urge policymakers to expand eligibility to more businesses, making it easier and cheaper for entrepreneurs to raise capital and provide more flexibility in financing options.

Modernize net operating loss treatment to support startups: Launching and building a new business requires investment – investment to research and develop a new technology or innovation, to prototype and perfect a new product or service, to fund the salaries for critical initial employees, and to pay other essential early expenses. Because such costs are incurred long before the first dollar of revenue, most new businesses lose money in their initial years. Such losses are referred to as net operating losses, or NOLs. Tax law permits all businesses to deduct NOLs from taxable income. But because most startups have little or no income in their early years against which to apply losses, NOLs are carried forward to apply to income the startup, if it survives, will hopefully earn in the future.

But two aspects of the IRC complicate the tax treatment of NOLs and other tax credits for startups. Section 382 pertains to net operating losses and Section 383 pertains to other tax credits. Sections 382 and 383 were written in the mid-1980s to prevent a practice known as "loss trafficking" – companies acquiring failing young firms with large losses solely to use the acquired company's tax losses to offset other unrelated income. As currently written, the sections restrict startups from carrying forward NOLs and other tax credits, and can have the effect of virtually eliminating any value associated with carry-forwards for startups, especially following transactions perceived to be a change in ownership. And perceived changes in ownership can include investments from venture capital firms or other sources – investments that startups often depend on for many years. With these important realities in mind, we respectfully urge Congress to modernize the tax treatment of NOLs in Sections 382 and 383 to reflect the unique nature and importance of startups. Specifically, we urge Congress to establish a safe harbor for startups that will enable new businesses to maintain the value of NOLs and other tax credits as they continue to need and accept outside investment.

Preserve favorable tax treatment of carried interest: Current tax policy offers favorable tax treatment on capital gains to investors that provide longer term capital (greater than one year).

Longer term "patient" capital fuels new business growth, job creation, economic growth. Managers of private funds that invest in startups are generally compensated in two ways: management fees and "carried interest." Management fees are charged as a percentage of assets under management (generally 2 percent), while carried interest is a percentage of the fund's investment profits that fund managers receive as compensation (generally 20 percent). Because these profits are a return on investment, they are taxed at a long-term capital gains rate.
The prospect of sharing in any investment gains incentivizes fund managers to invest wisely and responsibly, and aligns fund managers' interests with that of their investors. Importantly, carried interest is especially critical for emerging fund managers, who typically raise and manage smaller funds with fewer assets under management and, therefore, rely principally on carried interest for the majority of their compensation, enabling them to continue investing in emerging founders. To maintain robust investment in the startup ecosystem to fund critical new companies and innovations, we respectfully urge Congress to maintain the current tax treatment of carried interest.

Your work to restore first-year expensing of R&D investments, expand QSBS, modernize tax treatment of startups NOLs, and preserve carried interest is about much more than tax rates and federal tax receipts – it is central to our nation's long-term economic competitiveness and ability to win the future in a world in which power is defined in terms of technology and innovation.

Thank you again for your continued leadership on behalf of America's new and small businesses, and for your ongoing work to preserve America's global innovation leadership.

Sincerely,

AdvaMed
Angel Capital Association
Carta
Center for American Entrepreneurship
Engine
National Venture Capital Association
Technology Councils of North America (TECNA)

IntervalZero

Jeffrey D. Hibbard
CEO, IntervalZero, Inc.
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April 2, 2025

Submitted to:
House Committee on Small Business
2361 Rayburn House Office Building
Washington, D.C. 20515

Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, D.C. 20510

Subject: Statement for the Record on Joint House & Senate Full Committee Hearing on Tax: "Prosperity on Main Street: Keeping Taxes Low for Small Businesses"

Chairwoman Ernst, Ranking Member Markey, Chairman Williams, Ranking Member Velázquez, and Members of the House and Senate Small Business Committees:

Thank you for inviting me to submit this written testimony. My name is Jeff Hibbard, and I serve as the Chief Executive Officer of IntervalZero, Inc., a Massachusetts-based software company that develops Real-Time Operating Systems (RTOS) for use in industrial control systems. Since founding the company in 2008, I led IntervalZero's growth to a $10 million enterprise employing 54 professionals.

We all share the goal of supporting growth, competitiveness, and sustainability for small businesses in the United States. That is why I am submitting this testimony to bring to your attention to the devastating effects of the changes to Section 174 of the Internal Revenue Code enacted as part of the 2017 Tax Cuts and Jobs Act (TCJA). The requirement to capitalize and then to amortize rather than immediately expense R&D costs in the same year that they occur has had a disproportionately harmful impact on small, innovation-driven companies such as ours.

<u>Industrial Control Systems Market Overview</u>
IntervalZero plays a vital role in the Industrial Control System (ICS) market. ICSs are automated systems that control and monitor industrial processes such as assembly lines, robotic devices, or manufacturing operations. They enable and manage highly complex tasks with precision. The systems and the capabilities they support are foundational to factory productivity, industrial automation, and the overall functioning of modern machinery, especially in advanced, critical industries like semiconductors, robotics, and medical equipment.

Our software adds the precision to machines on the factory floor so they can perform functions that impact the lives of Americans every day. If you have flown on a Boeing Jet, your pilot was trained on a flight simulator powered by our software, ensuring safe and realistic practice. If you drive a car manufactured in the USA, there's a good chance the frame was welded together by a robot controlled by our software, providing precise and reliable assembly. The shiny glass screen on your iPhone was likely cut and polished by a machine guided by our software, ensuring a flawless finish and even some of the chips inside that phone relied on machine controllers built with our software. The green printed circuit board full of chips inside your computer, was assembled by a machine using our software, making your computer function seamlessly. If you have watched an LED TV or monitor, there's a chance the LEDs were placed on the display by a machine controlled by our software, providing you with a clear, colorful, and vibrant picture.

In short, we don't just sell software—we help make the machines that power modern life work better. Our contributions ripple outward: when companies like IntervalZero are strong, our customers are more productive and innovation is accelerated across industries that directly affect people's lives.

At IntervalZero, we offer machine builders a Software Development Kit (SDK) to design custom ICSs for their equipment. Traditionally, an industrial control system requires custom hardware and specialized engineering, which is very expensive. But through extensive R&D, we figured out a way to deliver the same performance, quality, and reliability using a software application that simply runs on off-the-shelf Microsoft Windows PCs at far less cost and shorter time to market. Our core product, RTX64, is widely recognized in industry as a Real-Time Operating System (RTOS).

Our high-volume customers span the semiconductor, robotics, printed circuit board, and CNC industries. For example, three prominent Japanese customers manufacture machines capable of mounting computer chips onto green printed circuit boards at rates of up to 80,000 chips per hour. While NDAs restrict us from naming most clients, some are CHIPS Act beneficiaries because their machines are being deployed in Arizona and Texas at new semiconductor plants. We may be a small business, but our competitors include major industry players like Siemens and Rockwell Automation, as well as smaller firms from Germany, China, Korea, and Japan.

Strategic Importance of R&D At IntervalZero

R&D is the lifeblood of competitiveness in our industry because it allows companies like ours to understand and employ technological advancements that make our products better for clients. Our customers demand flawless performance; a single error can lead to personal injury, production disruptions, or reputational damage. IntervalZero commits to delivering 100% execution reliability within pre-defined time boundaries —a remarkably high standard that demands constant, intensive R&D investment.

R&D is also central to our business strategy. We purposefully outspend our smaller competitors in R&D to create meaningful product differentiation. Unlike large industrial automation giants, we rely on agility and responsiveness to quickly adopt and integrate new technologies for our customers. From our founding until Section 174 took effect, we reinvested profits, achieved average annual growth of 6%, and hired consistently until reaching 54 employees.

Sustained R&D investment is essential to maintaining market leadership. In our industry, innovation cycles are closely tied to product relevance and long-term viability. Missing even a single design cycle can result in falling behind, as competitors who continue to invest gain a technological edge. Companies that delay or outsource critical R&D may find themselves unable to keep pace, eventually losing customer trust and market share.

IntervalZero

Failure to keep pace may not be immediately visible but compounds over time. Even American giants like Intel and Boeing are now viewed as cautionary tales for missing crucial R&D windows. Section 174 is already forcing similar setbacks at IntervalZero and across America's software sector, which I know from my work with other software CEOs.

Our global competitors—particularly in Germany, Japan, and China—are doubling down on innovation. Without a change in policy, IntervalZero and companies like it will soon fall too far behind to recover lost ground.

IntervalZero's Three Phases of Response to Section 174

Historical Context

In 2021, IntervalZero reached a milestone: 54 employees and $10.2 million in sales. Sixty-eight percent of our team was dedicated to R&D, our core RTOS engineering work is all centered in Waltham, MA. Despite only 25% of our revenue coming from the U.S. (with 25% from Europe and 50% from Asia), we took all orders and paid all taxes in U.S. dollars.

We made a conscious decision to prioritize engineering over management. We had no VPs of Marketing and Business Development, nor a CTO—choosing instead to invest in R&D talent. For years, this was a strategic advantage. It allowed us to be nimble, innovate quickly, and focus every available dollar on product development rather than executive overhead.

However, Section 174 amortization provisions fundamentally changed that equation. It penalized exactly the type of companies America should be supporting: small, R&D-intensive businesses reinvesting their earnings into innovation. The shift from expensing to amortizing R&D expenses meant that every dollar we spent on innovation suddenly came with an additional tax liability. What was once a deliberate and successful business model—lean on management, heavy on engineering —became a cash-flow liability we could no longer afford.

Over the past five years, IntervalZero's average pre-tax profit was $222,000. Yet our Section 174-related tax burdens were approximately: $800,000 in 2022, $600,000 in 2023, $400,000 in 2024, and were projected to be $200,000 for 2025—an unsustainable imbalance.

Phase 1- Survive with Team Intact

When the new tax obligations hit, we were shocked and caught off-guard but our first priority was to preserve our team. Corporate memory and training take years to build. Letting go of even one person felt like losing family. Each member of our engineering team represents deep, highly specialized expertise that is essential to our success. For every software engineer we lose, it takes approximately four years to fully replace their knowledge, skills, and understanding of our systems. Losing team members meant losing vital investment in that essential expertise—investment that had already been made and would take years to rebuild. These aren't interchangeable roles; they are foundational to our products and to our ability to deliver the performance and reliability our customers depend on.

We implemented immediate freezes on spending, hiring, and raises and increased our prices. I engaged with local technology councils in hopes of repealing the changes to Section 174. We also drew on our line of credit. Unfortunately, at the same time, foreign competitors slashed prices, causing our sales to fall and the market share we had worked so hard to build started to shift overseas. Worse, Section 174 drained our precious cash and our bank noticed. Ultimately, the bank withdrew our line of credit, and we would have to seek a loan elsewhere if we needed one.

IntervalZero

Phase 2 – Keep the team- Seek outside funding partner
We remained committed to protecting our team. Reducing our workforce and then hiring and training new staff when we recovered would take years. To bridge the tax gap initially, my wife and I tapped into our personal savings to cover approximately $1 million in Section 174 specific taxes.

We then explored private equity, with most inquiries coming from international firms in Canada, Korea, and England. However, none of the offers we received were acceptable and severely undervalued the business relative to our historic growth and our recurring revenue. Following that and believing the sales downturn would be temporary, I signed a personal guarantee to secure a loan and, following that, the company was able to secure $1.0 million in loans in Q4 2023.

By the end Q3 2024, IntervalZero had taken $2.0 million in support, including $1.0 million in loans and approximately $1.0 million in our personal savings. This was necessary just to cover the approximate $1.8 million in Section 174 associated tax obligations.

Phase 3 – Accepting the Inevitable
In Q4 2024, it was clear that our cash reserves were about to be exhausted. Facing another $200,000 in Section 174 taxes plus loan repayments in 2025, we had no option but to reduce our engineering workforce which was the cause of the extraordinary cash drain.

Rather than laying our friends/teammates off during the holidays, in Q4 23, we took another loan for $200,000 to tide us over until January 14, 2025 when I scheduled and executed the reduction in force. During 2024, we had been helping people retire early and did have some attrition, so in January 2025, we laid off 12 employees, ultimately bringing our headcount down to 35 from the high of 54 teammates. This was devastating for a company where employees are like family. It was also devastating to the people we let go and to the well-being and stability of their families. Remarkably, the remaining team has not received raises in three years, yet their loyalty has been unwavering. And it was devastating to me personally. I felt like I had failed my team.

By the end January 2025, we had to take one final loan for $300K to pay for the layoffs.

IntervalZero Current Situation
We are now profitable and rebuilding our cash reserves. Our immediate priorities are rewarding employees with raises and repaying our debt. However, we still owe nearly $1.5 million in loans and face an estimated $170,000 in Section 174 taxes (down from $200,000 due to the layoff.)

With an average annual profit before tax over the past 5 years of just $222,000, the obligation to repay the loan makes our ability to invest in R&D like we once did impossible. Even though we are profitable it will take at least 5 years and maybe up to a decade before we can start investing in R&D again. Without R&D, we are sure to miss several cycles of innovation. This means that small businesses like mine—businesses that have historically driven innovation and technological advancement—are left unable to develop new products, grow our companies, or help maintain America's global competitiveness. Without meaningful innovation, we risk losing our technological edge over foreign competitors once and for all - especially to those in China and Germany who have us in their sights.

IntervalZero

Ask to Congress
I respectfully request that Congress repeal Section 174 in full and make the repeal retroactive to its effective date. Doing so would allow IntervalZero to recover approximately $1.8 million already paid in Section 174-related taxes, eliminate our outstanding debt, and immediately resume investments in R&D, hiring, and innovation.

Thank you for your time and for your commitment to supporting America's small businesses and innovation economy.

Sincerely,

Jeffrey D. Hibbard
CEO, IntervalZero

National Association for the Self-Employed

STATEMENT FOR THE RECORD

FOR THE JOINT HOUSE & SENATE SMALL BUSINESS COMMITTEE HEARING ON TAX

“Prosperity on Main Street: Keeping Taxes Low for Small Businesses”

By Keith Hall

President & CEO, National Association for the Self-Employed

April 11, 2025

Dear Chairman Williams, Chair Ernst, Ranking Member Velázquez and Ranking Member Markey, and Members of the Committees:

Thank you for the opportunity to submit this statement for the record on behalf of self-employed individuals, freelancers, independent contractors, and sol- entrepreneurs who are vital contributors to the American economy. As Congress debates the extension of the small business provisions included in the 2017 *Tax Cuts and Jobs Act (TCJA)*, we hope that Congress will work to advance policy proposals that continue to modernize and simplify the tax code in support of not just the 16 million self-employed business owners, but the 30 million small businesses that serve as the economic engine to our country.

Our 2024 NASE member survey indicated that our membership – an our allied small business organizations – indicated that the issue of taxes remains the 2nd most challenging pain point in operating their business, while health care was the top issue for the self-employed community.

The Importance of the Self-Employed to the U.S. Economy

The small business community stands at the heart of our national economy—they are the soul of the country's middle class, comprising 99.9 percent of all U.S businesses and employing 45 percent of Americans. In fact, the small business community has surged with over 20 million new applications in the last few years, according to the Small Business Administration. Black, Hispanic, and Asian small business owners are launching new businesses at record breaking rates ensuring our community is not only the fastest growing but also helping to establish America’s small business community as the country’s most diverse business sector.

An overwhelming 82 percent of small businesses are solo-entrepreneurs, self-employed or independent contractors. They have stepped out on their own to create their own job, either as a main source of income, a side-hustle, or a second career in retirement—they are our local accountants, bakers, barbers, graphic designers, and gig-economy workers—all alongside Main Street—while solo-entrepreneurs have fueled entire new sectors of our national economy, such as the on-demand economic sectors. These individuals span every sector—from childcare providers, real estate agents, and creative professionals to skilled tradespeople and digital entrepreneurs. Their work fosters innovation, fills critical labor market gaps, and contributes to the vibrancy of local economies. Yet, current tax policy often places disproportionate burdens on these workers, many of whom lack the same benefits and predictability afforded to traditional employees.

Key Tax Policy Recommendations

To support and incentivize self-employment as a viable and equitable career path, Congress should support the following:

1. Make the Qualified Business Income (QBI) Deduction Permanent for All Self-Employed

The Section 199A deduction, which allows certain self-employed individuals to deduct up to 20% of their qualified business income, has provided essential tax relief. However, the deduction is currently set to expire after 2025. Congress should extend the QBI deduction to all self-employed taxpayers, regardless of industry classification.

2. Expand and Simplify Retirement Options for the Self-Employed

Per the NASE 2024, member survey, retirement savings continues to be an area where small businesses are using a multitude of different ways to save for their future, underscoring the need for policy makers to continue to support creative ways for small business owners to save for their future. Self-employed individuals face unique challenges in saving for retirement. Congress should enhance and simplify tax-advantaged retirement plans such as the Solo 401(k) and SEP IRA, including increasing contribution limits, automating enrollment, and improving outreach to underrepresented entrepreneurs.

3. Establish a Standard Deduction for Business Expenses

Unlike traditional employees, self-employed workers must track and categorize numerous business expenses. A simplified standard deduction—akin to the home office deduction—would ease compliance and reduce the audit burden for gig workers and sole proprietors, proprietors, freeing up time to create a new job and enhance the efficiency of the existing business.

4. Ensure Fairness in Tax Audits and Enforcement

Data shows self-employed individuals, particularly those using the Earned Income Tax Credit, are disproportionately targeted for audits. The IRS should implement more equitable audit protocols and invest in taxpayer education and support services for the self-employed.

5. Modernize Estimated Tax Payment Systems

The quarterly estimated tax payment process is outdated and complex. Congress should direct the IRS to develop a more user-friendly, real-time tax withholding system for independent workers, similar to payroll withholding for W-2 employees.

Conclusion

Whether you are Republican, Democrat, or Independent –the one thing that spans across all political stripes our elected leaders in Washington can all agree on is supporting our small businesses. These policies supporting America's record-breaking small business community is an economic issue, not a partisan one

Respectfully submitted,

Keith Hall

President & CEO

National Association for the Self-Employed

NATIONAL COUNCIL OF FARMER COOPERATIVES

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Statement for the Record

Submitted by
The National Council of Farmer Cooperatives

To the
Committee on Small Business
U.S. House of Representatives

And

Committee on Small Business and Entrepreneurship
United States Senate

Regarding the Joint Hearing Entitled
Prosperity on Main Street: Keeping Taxes Low for Small Businesses

Submitted to:
Colin Hall, Clerk,
Committee on Small Business
U.S. House of Representatives
colin.hall@mail.house.gov

April 10, 2025

Chairman Williams, Chair Ernst, and members of both committees, the National Council of Farmer Cooperatives (NCFC) appreciates the opportunity to provide a statement for the record in response to the April 8, 2025, hearing entitled, “Prosperity on Main Street: Keeping Taxes Low for Small Businesses.”

Since 1929, NCFC has been the voice of America's farmer cooperatives. Our members are regional and national farmer cooperatives, which are in turn comprised of 1,600 local farmer cooperatives across the country. NCFC members also include 26 state and regional councils of cooperatives.

Today, farmer co-ops across the country have over $300 billion in annual sales. They represent 1.8 million farmer members and provide over 200,000 jobs with a payroll of over $12 billion. Farmer co-ops are important members of their communities, doing everything from sponsoring the local Little League team to helping rebuild after natural disasters.

What is a farmer cooperative?

The simple definition of a farmer cooperative is a business owned by farmers, controlled by farmer-elected boards, and existing for the benefit of its farmer members. Yet, that single sentence does not fully capture how integral a cooperative is to its members' farming operations, which are millions of small businesses across rural America.

America's farmer-owned cooperatives provide a comprehensive array of services for their members. These diverse organizations handle, process, and market virtually every agricultural commodity. They also provide farmers with access to the infrastructure necessary to manufacture, distribute, and sell a variety of farm inputs. Additionally, they provide credit and related financial services, including export financing.

Co-ops act as bargaining agents, provide market intelligence, and help farmer members engage in value-added processing. For example, co-ops are often formed to extend the business operations of their farmer-owners into areas that would be difficult for individuals to carry out alone — activities like building and operating processing plants, establishing and marketing well-known consumer brands, and purchasing supplies in quantities large enough to obtain significant volume discounts. They provide their farmer-members with all the tools necessary to run a successful farming operation – including credit, financing, feed, seed, fertilizer, fuel, and other crop production products. They also process their patrons' commodities into consumer products (milk into butter, fruit into juice, soybeans into biodiesel, etc.).

There are different types of co-ops serving different purposes—supply co-ops, marketing co-ops, bargaining co-ops, and the farm credit system. A marketing cooperative, for example, can command a better market price for the bulk sale of all its patrons' produce than each individual farmer could command alone. A supply cooperative guarantees its members a source of needed agricultural inputs and can reduce the input costs of farm supplies for its patrons by buying or producing in bulk. In fact, farmers who belong to a supply co-op on average earn approximately $5500 more per year than those who do not.

A farmer may have 40 acres of oranges or 4,000 acres of soybeans, but as a member of a cooperative, they can accomplish things that no individual farmer could do on their own. Co-ops allow individual farmers to truly participate in the food and fiber system, all the way from the farm to retail. Some of the most innovative products and recognizable brands on grocery store shelves are co-op creations.

The benefits of farmer co-ops go well beyond the farm gate, directly supporting rural America. The profits of the co-op are returned to the farmer members, in the form of a patronage dividend, in proportion to the amount that each farmer has transacted with the cooperative. This contrasts with other forms of business, in which profits are returned in proportion to equity ownership interests.

Total profits for farmer cooperatives in 2022 were $12.5 billion; this money was either returned to farmer members or reinvested into the co-op, benefiting the co-op members, and further bolstering local communities.

Taxation of Cooperatives

A farmer co-op is a corporation subject to the corporate tax on its income. In computing its taxable income, a cooperative is allowed a deduction for amounts distributed to its members in the form of patronage. The farmer then includes this as ordinary income subject to the normal individual tax rates (i.e., the reduced rates applicable to dividends and capital gains do not apply).

Simply put, patronage income is taxed once. The income is either retained and taxed at the cooperative at regular corporate rates or is distributed to the patrons and taxed at their individual rates. This system of taxation is contained in subchapter T of the Internal Revenue Code and was first codified in 1962 to reflect the practices that had existed since the beginning of the federal income tax.

Section 199A

Section 199A was passed to put co-ops and small businesses on an even footing with big corporations which saw a significant decrease in their tax rate in 2017. The purpose of the co-op provisions contained within Section 199A(g) is to provide a replacement for prior-law Section 199 for cooperatives and their members. In enacting Section 199A(g), Congress made clear its intent that it should operate in the same manner as former Section 199.

The calculation is the same as it was under prior law Section 199 – it is 9% of the co-op's qualified production activities income (QPAI). The deduction is limited to 50% of the co-op's wages for the year and may not exceed the co-op's taxable income for the year. This is an important point, as an individual farmer may not have the wages to calculate much of a deduction. Through the co-op, they can better take advantage of the deduction.

The co-op may choose to keep all or part of the deduction at the co-op level to offset tax liabilities, or it may be passed through to their members.

Co-ops pass 95% back to farmers, who reinvest it into their operations, benefiting the economy through job creation, increased spending on ag production, and investment in rural communities. Among NCFC members alone, $2 billion was returned to farmers in 2022. Additional information by state is available on our website.

Section 199A, including provisions related to farmer co-ops, expires at the end of 2025. The reduced corporate tax rate reduction was made permanent in 2017.

The Section 199A deduction should be made permanent to keep the competitive balance between corporate and noncorporate businesses. We are asking Congress to save the Section 199A deduction because America's farm families are counting on it.

Again, thank you for this opportunity to provide a statement for the record. We stand ready to serve as a resource to you as the tax debate gets underway and are available to answer any questions.

CELEBRATING 20 YEARS SMALL BUSINESS MAJORITY

WRITTEN STATEMENT FOR THE RECORD BEFORE THE U.S. HOUSE COMMITTEE ON SMALL BUSINESS AND U.S. SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENUERSHIP

"PROSPERITY ON MAIN STREET: KEEPING TAXES LOW FOR SMALL BUSINESSES"

April 14, 2025

John Arensmeyer

Founder & CEO, Small Business Majority

Dear Chair Williams, Chair Ernst, Ranking Member Velazquez, Ranking Member Markey and members of the House Committee on Small Business and Senate Committee on Small Business and Entrepreneurship:

As a leading representative of America's 34 million small businesses, Small Business Majority is pleased to provide written testimony on how Congress can best support the needs of our nation's small business ecosystem through the tax code.

Small Business Majority is a national small business organization that empowers America's diverse entrepreneurs to build a thriving and equitable economy. From our 12 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 and most under-resourced businesses.

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 work has combined analyses of tax policies' impacts on Main Street along with scientific research into small business needs and attitudes and is bolstered by the stories of real small business owners.

As uncertainty festers on Main Street, small businesses require a tax code that supports their sustainability and growth

When structured with the needs of America's smallest businesses in mind, the tax code can play a critical role in supporting the sustainability and growth of Main Street businesses, putting more money back into business owners' pockets which can be reinvested in new jobs, equipment, and initiatives to spur their growth. However, this is not the reality for most of Main Street.

Through national polling conducted by Small Business Majority, small business owners have made clear that the current tax code is not working for them. In fact, 82% of small business owners agree that the current tax system favors large corporations over small businesses and 75% believe that wealthy individuals and large corporations don't pay their fair share of taxes. Patrick Hall, owner of Elan Flowers in Manhattan, New York agrees that the tax code favors big businesses, stating that, "I believe in taxes and paying them. However, it's unfair that my business pays more in taxes than large corporations that find a way to get around them." Overall, small businesses feel disadvantaged by tax loopholes that disproportionately benefit larger and wealthier businesses.[1]

[1] "Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms." Small Business Majority. August 28, 2024. https://smallbusinessmajority.org/our-research/taxes-budget-economy/opinion-poll-small-businesses-support-bottom-tax-reforms

While proponents of the Tax Cuts and Jobs Act (TCJA) frequently claim that the driving factor of uncertainty on Main Street is the upcoming expiration of several of its provisions, falsely stating that a failure to extend these provisions will result in the "largest tax increase in history", the current administration's reckless actions, including the implementation of sweeping tariffs and decimation of federal agencies that support small businesses, has led to record levels of uncertainty among small businesses this year. In fact, the National Federation of Independent Businesses (NFIB) Uncertainty Index has reached record levels in Q1 and the net percent of business owners expecting better business conditions fell by 16 points in March, representing the largest decline since December 2020.[2]

Over the last three months, small business owners have been at the mercy of the Trump administration's unpredictable tariff strategy that seemingly came to a front on April 2nd after the announcement of a new 10% tariff on all imports in addition to reciprocal tariffs on 60 countries. These new tariffs, not the expiration of the TCJA, will come to represent the largest tax increase on American businesses and consumers since 1968 and will leave small businesses with little to no choice but to pass along these price increases to consumers.[3] In fact, recent Small Business Majority national polling found that more than half (53%) of small businesses are concerned about the impact of tariffs on their business and 77% are concerned about the impact on the larger economy.[4] These rash economic decisions have put small businesses in an impossible position, as they are faced with imminent cost increases from tariffs while consumers pull back on spending on Main Street amid economic turmoil and plummeting stocks.

The following quotes from small business owners in our network underscore the uncertainty and fear that has been provoked by these reckless tariffs:

- **Shayai Lucero, owner of Earth and Sky Floral Designs and Gallery in Laguna, New Mexico** shared: "I operate a floral shop in New Mexico and have had to raise my prices. Most roses are imported from South America and now cost around $2.00 per stem (wholesale) instead of $0.99 due to the tariffs. I was able to maintain affordable pricing for the communities I serve for the last four years by absorbing costs where I can. However, I have recently had to increase costs by a minimum of $5 just to stay afloat and I will still be taking a financial hit."
- **Margo Clayson, founder and president of The Mighty Microgreen in Inkom, Idaho** shared "Tariffs are my biggest concern right now. I source everything I can locally, but some materials—like plastics—are simply not affordable in the United States. If I have to raise prices in response to my increasing costs, I know families will then have to make tough choices. No matter how great my product is, it's likely to end up on the back burner in family budgets. And when it comes to immigration policy, I expect mass deportations would directly impact the farmers who supply the seeds I rely on. Living in a farming community, I see firsthand how generational family farms already struggle to find workers willing to do the back-breaking labor that farming demands. This isn't just a challenge for my small business—it's an issue that will affect all of us."
- **Bill Stewart, owner of LI Toy & Game in Kings Park, New York** shared "I am the owner of a small toy store business and my wholesale costs are increasing across the board. There isn't a single item in my shop that isn't affected by these tariffs; I'm getting daily emails from wholesalers about tariff price increases and delays.

  Board game manufacturers will be hit especially hard as board games cannot realistically be produced here in America. Creating the factory and buying equipment would take several years and it would require more financial resources than most publishers have. Small to mid-sized manufacturers are telling me they may not be able to stay in business as they will be forced not to

[2] "New NFIB Survey Small Business Optimism Slips." National Federation of Independent Businesses (NFIB). April 8, 2025. https://www.nfib.com/news/press-release/new-nfib-survey-small-business-optimism-slips/

[3] "Trump's tariffs are largest US tax hike since 1968, JPM warns." Reuters. April 3, 2025. https://www.reuters.com/markets/us/trumps-tariffs-are-largest-us-tax-hike-since-1968-jpm-warns-2025-04-03/

[4] [8]"Voice of Main Street: Entrepreneurs worry about impact of tariffs, other disruptive acts, prefer small business friendly policies." Small Business Majority. February 5, 2025. https://smallbusinessmajority.org/our-research/voice-of-main-street/small-businesses-concerned-about-impact-tariffs-prefer-small-business-friendly-policies

> distribute their products in the United States. Additionally, action figures cannot be made in America at evenly remotely competitive prices because they're hand painted at the factory. Those figures already cost between $25 and $40 per unit, while collector-quality figures cost over $300. All of those prices would increase dramatically beyond what most consumers would be willing to pay.
>
> I think many small toy stores could be forced out of businesses by these insane tariffs. Ultimately, tariffs will be terrible for the consumer, small businesses and corporations. Nobody wins here."

Amidst this growing economic uncertainty, which will ultimately lead to decreased spending on Main Street and higher input costs for small businesses, it will become increasingly important for Congress to reevaluate how it can best support our nation's smallest businesses through meaningful tax reform that allows more small businesses to reinvest in and grow their businesses. While the upcoming expiration of several TCJA provisions has dominated this year's reconciliation negotiations, rushing to extend them without addressing their existing flaws would be shortsighted—and would fail to deliver the meaningful tax relief that our smallest businesses urgently need.

The expiration of the TCJA presents an opportunity to reform the Section 199A pass-through deduction to benefit true Main Street small businesses

Few examples better illustrate how the current tax code overlooks the needs of the smallest businesses than the Section 199A pass-through deduction, which was enacted through the TCJA and allows pass-through entities to deduct up to 20% of their Qualified Business Income (QBI) from federal taxes. Given that roughly 95% of small businesses as classified as pass-through entities, which include sole proprietorships, partnerships, LLCs, and S-Corporations, TCJA proponents claimed that this would provide relief to Main Street businesses.[5] However, because the deduction is percentage-based, most small businesses—typically earning well under $100,000 annually—see minimal benefit, while the largest and wealthiest pass-through entities claim deductions worth hundreds of thousands or even millions, further tilting the playing field against Main Street.

While many argue against the data, or simply choose to ignore it, the numbers clearly display time and time again that the deduction is not reaching the smallest businesses. 2022 Tax Policy Center data found that 69.2% of all pass-through deduction benefits flowed to the wealthiest 4.5% of business owners.[6] What's more, while the richest pass-through entities claimed an average deduction of over $1 million in 2021, claimants with adjusted gross incomes (AGI) below $100,000, an income level that many small businesses fall within, took home an average deduction of just $1,997.[7] Indeed, the financial benefits for a pass-through entity earning a profit of more than $500,000 are 20 times higher than the benefits for a business making $75,000. An analysis conducted by the Joint Committee on Taxation found that in 2019, over 50% of the benefits claimed from the 199A deduction went to taxpayers with incomes of $819,672 or more, further signifying that the current deduction is not reaching Main Street.[8] This current approach, which effectively tells pass-through entities that the more they make, the more they can deduct, fails to prioritize the needs our nation's smallest businesses that would benefit greatly from a larger, simplified deduction that enables them to make impactful investments in their growth.

To ensure that our tax code reflects their needs, Small Business Majority has long advocated for replacing or reforming Section 199A to deliver bottom-up benefits. For example, small businesses could deduct up

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[5] "9 facts about pass-through businesses." Brookings Institution. May 15, 2017. https://www.brookings.edu/articles/9-facts-about-pass-through-businesses

[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] The 2017 Tax Bill's Pass-Through Deduction Largely Favors the Wealthy and Encourages Gaming of the Tax Code," Center for American Progress, 2024. https://www.americanprogress.org/article/the-2017-tax-bills-pass-through-deduction-largely-favors-the-wealthy-and-encourages-gaming-of-the-tax-code/

[8] "Present Law And Background Regarding The Federal Income Taxation Of Small Businesses." Joint Committee on Taxation. June 5, 2023. https://www.jct.gov/publications/2023/jcx-10-23/

to $25,000, calculated on a business's AGI, thus benefiting very small businesses rather than continuing to deliver inequitably distributed top-down tax breaks that have primarily flowed to the top 4.5% of pass-through entities. Under this proposal, the smallest businesses, specifically the vast majority with a net income of less than $125,000 per year, would benefit.[9] This deduction should be accompanied by a phase-out for business owners with over $400,000 in income to ensure it benefits the entities most in need. Notably, small businesses see this proposal as a viable path forward. Our polling found that 2.5 times more pass-through small business owners support vs. oppose such a change (53-22%).[10]

Beyond the TCJA: Maintaining key tax credits to ensure small business access to quality affordable healthcare

In addition to the imminent cost increases driven by newly imposed, steep tariffs on nearly all of our nation's trading partners, small business owners and their employees continue to grapple with rising healthcare costs—further straining businesses' ability to grow. In annual polling conducted by Small Business Majority, small business owners consistently rank the rising cost of healthcare as one of the top barriers to their sustainability and growth. If Congress is serious about supporting small businesses through the tax code, lawmakers must look beyond TCJA and consider how existing tax credits and deductions, which help small business owners bring down their out-of-pocket healthcare costs, can be extended to enhance the economic well-being of America's entrepreneurs.

For the millions of small businesses that cannot afford to offer employer-sponsored healthcare coverage, the Affordable Care Act (ACA) Marketplace provides affordable coverage options to millions of small business owners and self-employed entrepreneurs annually. In fact, over half of all Marketplace enrollees are either small business owners, self-employed entrepreneurs, or small business employees.[11] In 2022 alone, 2.7 small business owners and 1.7 self-employed entrepreneurs received coverage through the ACA Marketplace, representing 28% of all Marketplace enrollment.[12]

The increasing number of small business owners and self-employed entrepreneurs receiving coverage through the Marketplace has largely been result of the temporary enhancements made the ACA's premium tax credit (PTC) which helps lower out-of-pocket premium costs for individuals and families who purchase coverage through the Marketplace. These enhanced PTCs, which were first enacted in 2021 through the American Rescue Plan Act (ARPA) and later extended through 2025 by the Inflation Reduction Act (IRA), expanded eligibility to individuals with income levels above 400 percent of the federal poverty line, an income level into which many small business owners fall. In 2022, over 2.7 million small business owners and self-employed entrepreneurs claimed the PTC, including roughly 285,000 individuals who would not have been eligible for the tax credit if not for the enhancements.[13]

To ensure millions of Americans, including small business owners, entrepreneurs and their employees, can continue to access lower premium costs through the ACA, Small Business Majority urges Congress to extend, or make permanent, tax credit enhancements included in the IRA before they expire in 2025. Recent Small Business Majority polling found that nearly 7 in 10 small business owners support extending

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[9] *The average small business profit is less than $71,000 annually. "How Much Do Small Business Owners Make? The Answer May Surprise You" Patriot Software. August 13, 2024. https://www.patriotsoftware.com/blog/accounting/how-much-do-small-business-owners-make-average-income

[10] "Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms." Small Business Majority. August 28, 2024. https://smallbusinessmajority.org/our-research/taxes-budget-economy/opinion-poll-small-businesses-support-bottom-tax-reforms

[11] "Small businesses see significant gains from the ACA." Small Business Majority. October 16, 2018. https://smallbusinessmajority.org/our-research/healthcare/small-businesses-see-significant-gains-aca

[12] "Affordable Care Act Marketplace Coverage for the Self-Employed and Small Business Owners." U.S. Department of the Treasury Office of Tax Analysis. September 20, 2024. https://home.treasury.gov/system/files/131/ACA-Mkt-Coverage-Self-Employed-Small-Business-Owners-09232024.pdf

[13] Ibid.

these enhancements.[14] If Congress fails to act, nearly 4 million Americans will become uninsured, and premium costs will skyrocket by 25-100% for eligible Marketplace enrollees.[15] The extension of the enhanced premium assistance will continue to keep health insurance premium costs affordable and expand access to coverage through the ACA Marketplace for entrepreneurs, providing them with the increased capacity to grow and expand their enterprises.

Congress should prioritize raising revenue and investing in small businesses rather than slashing the programs that support entrepreneurial growth

While many lawmakers have claimed that extending TCJA through the reconciliation process will be a boost for small businesses, the recently approved budget resolution rather threatens to strip funding and resources away from the programs that support small business owners and their employees, including Medicaid and the ACA's enhanced PTCs. These drastic spending cuts are being used to offset more than $5 trillion in tax breaks that do nothing to address the shortcomings of our tax system for Main Street. Instead, they continue to prioritize wealthy individuals and large corporations—leaving America's small businesses to foot the bill.

Rather than slashing funding for programs that support small business owners and entrepreneurs to extend unbalanced tax breaks for large corporations, Congress should invest in the agencies and initiatives that provide the training, technical assistance, and financing essential for nationwide entrepreneurial growth. This cannot be achieved without implementing some form of the revenue raising provisions outlined below, which guarantee that the wealthiest corporations and individuals contribute fairly to the tax system, relieving small businesses of the disproportionate burden they currently bear.

- **Increase the corporate tax rate:** The TCJA gave large C-corporations another unnecessary tax cut when it permanently lowered the domestic corporate tax rate from 35% to 21% - lower than the rate paid by many pass-through small businesses. This further reduced the tax liability of our nation's largest businesses. Since only 5% of small businesses are organized as C-corporations, this tax cut has had minimal positive impact on small businesses. Our recent poll found that a majority of small business owners support increasing the corporate tax rate to 28% to generate revenue.[16]
- **Protect increased funding for the IRS that supports revenue collection and tax filing assistance:** As our tax code has become increasingly exploited by individuals and corporations that game the system to avoid paying their fair share in taxes, a trend that has been compounded by the enactment of the TCJA, it is paramount that the Internal Revenue Service (IRS) be equipped with the adequate funding and resources necessary to close the annual tax gap of roughly $700 billion.[17] When asked if they would support continued additional funding for the IRS, our research found that more than half of small business owners support additional funding to ensure the agency can fulfill its essential functions. A vast majority think that the IRS needs more funding to properly improve customer service (85%), audit large corporations (82%) and provide tax filing assistance (81%). Additionally, entrepreneurs strongly believe that the IRS needs more funding to audit wealthy taxpayers (79%), audit individuals (67%) and audit small

[14] "Voice of Main Street: Entrepreneurs worry about impact of tariffs, other disruptive acts, prefer small business friendly policies." Small Business Majority. February 5, 2025. https://smallbusinessmajority.org/our-research/voice-of-main-street/small-businesses-concerned-about-impact-tariffs-prefer-small-business-friendly-policies

[15] "Enhanced Premium Tax Credits for ACA Health Plans: Who They Help, and Who Gets Hurt If They're Not Extended." The Commonwealth Fund. February 18, 2025. https://www.commonwealthfund.org/publications/explainer/2025/feb/enhanced-premium-tax-credits-aca-health-plans

[16] "Survey Toplines - Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms." Small Business Majority. August 28, 2024. https://smallbusinessmajority.org/sites/default/files/research-reports/2024-august-tax-survey-toplines.pdf

[17] "IRS updates tax gap projections for 2020, 2021; projected annual gap rises to $688 billion." Internal Revenue Service. October 12, 2023. https://www.irs.gov/newsroom/irs-updates-tax-gap-projections-for-2020-2021-projected-annual-gap-rises-to-688-billion

businesses and self-employed individuals (67%).[18] We urge Congress to reject any further proposed cuts to the IRS and continue to provide additional funding which will empower the agency to recover lost revenue to pay for the tax cuts we propose in this document.

- **Closing offshore tax loopholes**: According to the Joint Committee on Taxation, the TCJA's provision taxing foreign profits of U.S. multinationals at a lower rate than the rate that applies to domestic profits will cost more than $200 billion in revenue through 2027.[19] This system has allowed a few multinational corporations to continue funneling their profits to the lowest-taxation foreign jurisdictions. Small business owners strongly support closing offshore tax loopholes. In fact, 77% of small business owners agree that large corporations unfairly leverage their foreign presence to reduce their U.S. tax liability.[20] To ensure large, multinational corporations pay the same tax rate on profits earned abroad as they do in the U.S., we urge Congress to enact the No Tax Breaks for Outsourcing Act, which would be a significant first step in bringing much needed parity to the tax code. Small Business Majority's national polling found that 71% of small business owners support setting a minimum tax rate of 21% on corporate offshore profits.[21]

It's time for Congress to make the tax code work for Main Street

It is well understood that this year's reconciliation package will carry significant implications for millions of small businesses nationwide. Congress faces a clear choice: blindly extend TCJA provisions that have failed to deliver meaningful relief to millions of the smallest businesses or seize this opportunity to address the tax code's shortcomings and pursue reforms that provide greater, more impactful support to the small businesses that need it the most.

At a time in which small businesses are facing growing economic uncertainty and scaled back investments in the federal agencies and programs that support their prosperity, we urge Congress to consider the proposals outlined in this testimony which prioritize the economic wellbeing and growth of America's small business community. We thank the House and Senate Small Business Committees for holding this important hearing, and we look forward to working together to advance meaningful tax reform that supports Main Street businesses. For any questions or additional information, please contact our Government Affairs Director, Alexis D'Amato, at adamato@smallbusinessmajority.org.

Sincerely,

John Arensmeyer
Founder & CEO
Small Business Majority

[18] "Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms." Small Business Majority. August 28, 2024. https://smallbusinessmajority.org/our-research/taxes-budget-economy/opinion-poll-small-businesses-support-bottom-tax-reforms

[19] "CBO Estimates TCJA Extensions Could Cost Up to $2.7 Trillion." Committee for a Responsible Federal Budget. June 28, 2022. https://www.crfb.org/blogs/cbo-estimates-tcja-extensions-could-cost-27-trillion

[20] "Survey Toplines - Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms." Small Business Majority. August 28, 2024. https://smallbusinessmajority.org/sites/default/files/research-reports/2024-august-tax-survey-toplines.pdf

[21] "Survey: Small businesses support tax reforms to pay for robust infrastructure investments." Small Business Majority. June 8, 2021. https://smallbusinessmajority.org/our-research/infrastructure/survey-small-businesses-support-tax-reforms-pay-robust-infrastructure-investments

SSBA
SMALL SOFTWARE BUSINESS ALLIANCE

April 9, 2025

The Honorable Roger Williams
Chairman
Committee on Small Business
United States House of Representatives
Washington, District of Columbia 20515

The Honorable Nydia Velázquez
Ranking Member
Committee on Small Business
United States House of Representatives
Washington, District of Columbia 20515

The Honorable Joni Ernst
Chair
Committee on Small Business and Entrepreneurship
United States Senate
Washington, District of Columbia 20510

The Honorable Ed Markey
Ranking Member
Committee on Small Business and Entrepreneurship
United States Seante
Washington, District of Columbia 20510

RE: Statement for the Record for Joint House and Senate Hearing "Prosperity on Main Street: Keeping Taxes Low for Small Businesses" and Support for Passage of the American Innovation and R&D Competitiveness Act of 2025 (H.R. 1990)

Dear Chairman Williams, Ranking Member Velázquez, Chair Ernst, Ranking Member Markey, and Members of the Committees:

We applaud your leadership in holding the April 8, 2025, joint hearing on "Prosperity on Main Street: Keeping Taxes Low for Small Businesses" and appreciate this opportunity to weigh in on behalf of our coalition members. As we near the end of another tax filing season, American small business technology startups and developers are grappling with persistent challenges that not only jeopardize job creation in the United States but also threaten to diminish our global competitiveness. The Small Software Business Alliance (SSBA) is a coalition of small business owners fighting to restore immediate expensing of research and development (R&D) investments and prevent tax rules from disrupting the future of small tech companies and innovation in America. Coalition members are entrepreneurs, innovators, and independent developers within the global app ecosystem that engage with verticals across every industry. We work with and for our members to promote a policy environment that rewards and inspires innovation while providing resources that help them raise capital, create jobs, and continue to build incredible technology.

Since 1954, the IRC section 174 R&D provisions have enabled companies and entrepreneurs that conduct R&D to deduct these expenses in the year they were incurred.[1] Due to a provision of the 2017 Tax Cuts and Jobs Act (TCJA), this provision has lapsed as of 2022. Small business entrepreneurs and innovators now face substantial obstacles that not only jeopardize job creation in the United States but also threaten to diminish our global competitiveness. Small app companies, which do not have the same resources as larger companies to hire a team of accountants, are now required to spread the deduction of these expenses over five years (15 years for non-U.S. companies). This, unfortunately, marks the first time in 70 years that businesses find themselves unable to immediately claim the full value of eligible R&D expenses when filing their taxes. This unexpected turn placed significant burdens on small businesses trying to compete; post-pandemic inflationary pressures, reduced access to capital investment and diminished economic confidence have combined to put pressure on small business owners and force difficult decisions regarding their current operations and future plans.

As a result of these changes, the United States is one of only two developed countries requiring the amortization of R&D expenses.[2] Meanwhile, competing countries like China currently provide super deductions for R&D expenses, allowing companies to deduct a total of 200 percent of their R&D expenses before tax.[3] At a time when countries around the world are providing R&D tax incentives for companies, this change puts U.S. small businesses at a competitive disadvantage. The amortization requirement also poses a threat to our national security if not reversed. As the National Science and Technology Council noted, R&D investments "are essential to ensure that the United States remains able to secure and protect the American people in the face" of other countries' increased support for R&D.[4] To strengthen our competitive advantage in technology innovation, we seek to foster an ecosystem that is favorable to the dynamic and flexible nature of our small innovators. Allowing businesses to utilize Section 174 benefits to deduct full-expense R&D spending without amortization requirements would reinvigorate domestic capital investments and strengthen our American workforce.

In the 118th Congress, the SSBA enthusiastically supported the House Ways and Means Committee's overwhelming, bipartisan passage of the *Tax Relief for American Families and Workers Act of 2024* (H.R. 7024). We urge Congress to build on this important progress and

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[1] *Federal Research Tax Credit: Current Laws and Policy Issues,* Congressional Research Service, https://crsreports.congress.gov/product/pdf/RL/RL31181

[2] Ibid.

[3] The China State Tax Administration and Ministry of Finance (MOF) jointly released the *Announcement on Further Improving the Pre-tax Super Deduction Policy for R&D Expenses, STA MOF Announcement [2023] No. 7.* https://www.chinatax.gov.cn/chinatax/n359/c5185879/content.html

[4] Subcommittee on Research and Development Infrastructure, Committee on Science and Technology Enterprise of the National Science and Technology Council, National Strategic Overview for Research and Development Infrastructure in 2021 (pg.23)

finally enact this legislation in the 119th Congress to provide long-sought relief for small to medium-sized businesses and entrepreneurs that comprise SSBA membership.

Enactment of this legislation will finally restore SSBA members' ability to fully reinvest in their businesses, expand operations, and create new job opportunities. Small businesses are the backbone of our economy and providing them with the necessary tools and resources to succeed is paramount for sustained economic growth.

Sincerely,

AECooke

Alex Cooke
Executive Director
Small Software Business Alliance

Appendix
SSBA Member Testimonials

Aaron Schroeder, Co-Founder and President of Canopy, a Public Benefit Company
Manhattan, Kansas

The following is about R&D, taxes, and small business.

In 2022, U.S. businesses lost the ability to expense 100 percent of their R&D costs in the year they were incurred for the first time since 1981. Guidance from the IRS also indicated that most software development, including ongoing improvements to a Software as a Service (SaaS) must be classified as R&D.

Unfortunately, small bootstrapped software companies like Canopy, a Public Benefit Company were among the ones most impacted by this change. Consider this scenario: Your business has grown to $2 million per year in revenue. Of this $2 million, you spend $1.95 million on support, maintenance, and ongoing improvements, leaving $50,000 in profit. Let's say $1 milion of those expenses were for salaries and costs related to improving the software -- not unreasonable for a growing software company. Under the new rules, only 10 percent, or $100,000 of that $1 million could be counted as a 2022 expense while the rest had to be rolled over into future years (20 percent each subsequent year). Rather than $50,000, the small business had to report $950,000 in profit and pay state and federal taxes on that amount.

While a bit more complex, this is essentially the situation smaller bootstrapped SaaS companies like Canopy have found themselves in for the past 3 years. Larger companies can more easily absorb this change and may have already been amortizing R&D expenses anyway. But smaller software companies have been hit hard. Some had to take loans just to pay their tax bill. Most, at minimum, had to scale back spending to cover a tax burden that often exceeded the overall profit (even large tax burdens if there was a net loss).

Voximetry
Middleton, Wisconsin

For years, Voximetry and many other NIH SBIR companies have invested in building and growing our teams. Voximetry has been working to make safe, personalized care available to all theranostic patients, pouring resources into innovation to create better solutions for our business and customers.

However, due to a change in federal tax law, we've been unable to fully expense our research and development expenditures and are now required to amortize these expenses over five years. This has made less capital available for reinvestment into the company, and for many young technology companies has impacted cash flow to hire top talent, slowed the ability to expand the business, and required investor dollars to go toward tax payments back to the very government who provided funds for much of the work in the first place.

. . . The Small Software Business Alliance is calling for Congress to restore full expensing of R&D expenditures by supporting a tax policy that works for small businesses, not against them. We are the backbone of the economy, the future of better healthcare, and we deserve better.

Matt Roberts, Founder, Better Credits, Inc.
San Diego, California

I work alongside companies that are pushing the boundaries of technology and innovation—helping them maximize tax incentives that fuel growth and job creation.

But since 2022, the Section 174 capitalization requirement has hindered this growth and job creation. Instead of fully expensing R&D costs, businesses are now forced to amortize them over five or fifteen years—draining cash flow, stalling projects, and slowing innovation.

We've seen firsthand how this has impacted small business who are the backbone of our economy:
• Less cash flow available to hire and retain top talent
• Delays or cancellations of critical R&D projects
• Tougher decisions about expansion and investment
• Reduced capital for scaling and staying competitive
• Increased tax liability at a time when companies need resources to grow

This isn't just a tax issue—it's an innovation crisis. The companies driving technological advancements, creating jobs, and strengthening the U.S. economy are being penalized for investing in the future. I stand with taxpayers in urging Congress to restore full expensing of R&D expenditures and support policies that fuel innovation, not hinder it.

Jason Summers, Owner, ARiA
Madison, Virginia

[The Section 174 expensing] challenge is still unresolved, and the U.S. tax law remains untenable for both small R&D firms serving DoD and early-stage software firms.

Robert Longyear, Founder and CEO, Avenue Health
Long Beach, California

In a more globally competitive world, the United States must support small business-driven innovation, domestically. America has always led the world in innovation, but [expiration of the R&D immediate deduction] does not support our continued global leadership in innovation; in fact, it inhibits it. Small business innovation creates jobs, transforms our technological capabilities, and improves the quality of life for millions of Americans. Avenue Health operates in a particularly challenging healthcare environment, and we need every bit of help we can get to bring lifesaving, cost-effective, and transformative clinical programs to our nation's Medicare patients.

Edwin Schmierer, Co-Founder and COO, Rotational Labs
St. Paul, Minnesota

In FY22, our tax bill increased by four times because we could not fully expense engineering salaries. We cannot afford this ... Small companies are the engines of innovation. Many, many, many software companies will not survive. It will take a decade to recover, assuming there is an incentive to ever start a software company again.

Tom Rohlf, Co-Founder and CEO, Junglytics
Washington, District of Columbia

As a result of the changes in how early-stage startup expenses are able to be expensed, we had to make hard decisions about what to cut from our budget when we were still just getting our feet under us.

Marc Fischer, Founder and CEO, Dogtown Media
Venice, California

Reviving the R&D tax [deduction] is vital for small business innovation and U.S. competitiveness. Every day that goes by without a solution leaves American businesses further and further behind.

TECNA
TECHNOLOGY COUNCILS OF NORTH AMERICA

INSIGHTS. CONNECTIONS. EXPERTISE.

Jennifer Young
Chief Executive Officer, Technology Councils of North America (TECNA)
438 Division Street
Sewickley, PA 15143

April 8, 2025

Submitted to:

House Committee on Small Business
2361 Rayburn House Office Building
Washington, D.C. 20515

Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, D.C. 20510

Subject: Statement for the Record on Joint House & Senate Full Committee Hearing on Tax: "Prosperity on Main Street: Keeping Taxes Low for Small Businesses"

Chairwoman Ernst, Ranking Member Markey, Chairman Williams, Ranking Member Velázquez, and Members of the Committees:

Thank you for the opportunity to submit this written testimony. My name is Jennifer Young, and I serve as the Chief Executive Officer of the Technology Councils of North America (TECNA). TECNA represents approximately 60 regional technology trade organizations that collectively serve over 22,000 innovative, technology-driven small businesses throughout North America. These companies—ranging from enterprise software developers and medical device startups to AI research firms and manufacturing system engineers—are the engine of innovation and job creation in the United States.

Small businesses play a central role in America's innovation economy—driving nearly all net new job creation, generating breakthrough technologies, and powering the industries that define our future. The lifeblood of this innovation economy is research and development (R&D), which fuels new products, improves productivity, opens new markets, and enables U.S. companies to stay competitive in a rapidly evolving global landscape. Their ability to remain globally competitive hinges on robust, continuous investment in R&D. Unfortunately, the changes to Section 174 of the Internal Revenue Code, enacted as part of the Tax Cuts and Jobs Act (TCJA), have placed these businesses under immense financial strain, putting their growth, R&D capacity, and workforce at risk.

The Harmful Impact of Section 174 Amortization on Innovative Small Businesses

For nearly 70 years, U.S. companies could fully deduct R&D expenses in the year they were incurred—promoting innovation, attracting investment, and driving scientific and economic progress. However, since 2022, businesses must amortize these expenses over five years dramatically increasing their tax burden in the short term.

This policy shift has proven devastating for small, innovation-driven firms. Unlike large corporations with deep cash reserves, small businesses operate with tight margins and reinvest profits directly into engineering and product development. Amortization of R&D expenses effectively penalizes companies for doing what policymakers say they want to encourage: investing in the future.

TECNA members report consequences including:

- Dramatic tax increases despite no change in business fundamentals.
- The need to take out loans for the first time in decades just to cover tax bills.
- Layoffs of highly skilled engineers whose work is foundational to innovation.
- Lost market share to subsidized foreign competitors.

Member Case Studies: IntervalZero and DMSi Inc.

Let me share the stories of two innovative small businesses—IntervalZero in Massachusetts and DMSi Inc. in Nebraska—that are members of regional technology councils within the TECNA network. Their experiences exemplify the systemic harm caused by Section 174.

IntervalZero (Waltham, MA)

IntervalZero is a 54-person software company that helps run the robots and control systems behind many everyday products—like the aircraft you fly on, the cars you drive, and even the phones and computers you use. From training pilots in flight simulators to guiding robots that weld car frames or machines that cut and polish smartphone glass, IntervalZero's software is embedded in the manufacturing backbone of modern life.

Founded in 2008, IntervalZero grew steadily by prioritizing R&D – 68% of its team was dedicated to engineering, and profits were reinvested in innovation. But the changes to Section 174 upended their model. The shift from expensing to amortizing R&D meant that every dollar spent on innovation suddenly came with an additional tax liability. What was once a deliberate and successful business model—lean on management, heavy on engineering —became a cash-flow liability.

In 2022, Despite averaging just $222,000 in annual pre-tax profit, the company was hit with an unsustainable tax imbalance:

- $800,000 in 2022
- $600,000 in 2023
- $400,000 in 2024
- Projected $200,000 in 2025

These taxes weren't on profit—they were on payroll. The burden crushed cash flow and left IntervalZero scrambling to preserve its most valuable asset: its people. Letting go of even one engineer meant losing years of institutional knowledge, so the company froze hiring, wages, and spending. While they raised prices to stay afloat, global competitors—especially in China and Germany—slashed theirs, eroding the market share IntervalZero had built over a decade and sending revenues into decline.

To cover the growing tax burden and make payroll, IntervalZero first tapped its line of credit. But as revenue dropped, the bank withdrew it. With no other choice, the CEO and his wife used $1 million of personal savings just to make payroll and keep the team intact. Eventually, the company was forced to take on $1 million in loans, personally guaranteed by the CEO, to stay afloat. By the end of Q3 2024, the company had taken on $2 million in support—$1 million in loans and $1 million in personal savings—just to cover approximately $1.8 million in Section 174-related tax obligations.

In January 2025, after exhausting every alternative, they laid off 19 employees—35% of their workforce—including highly specialized engineers they had fought hard to retain. The result: lost productivity, delayed innovation, and a deep erosion of competitive advantage.

Despite returning to modest profitability in 2025, the company now faces nearly $1.5 million in loans and faces an estimated $170,000 in Section 174 taxes (down from $200,000 due to the layoff.) At its current pace, it will take at least five years—possibly a full decade—to recover enough to resume meaningful R&D investment. By then, the industry may have moved on, and with it, America's technological leadership in this critical sector.

DMSi Inc. (Omaha, NE)

DMSi is a true Main Street American success story. Based in Omaha, Nebraska, this homegrown tech company has quietly become the digital backbone of the U.S. lumber and building materials industry. Since 1976, DMSi has built software that helps local suppliers and lumber yards manage everything from inventory and customer orders to accounting, mobile apps, and business intelligence. Today, hundreds of companies across thousands of locations rely on DMSi's tools to operate efficiently, powering an essential industry that touches construction sites, small towns, and local economies across the country.

With a team of over 250 employees—nearly half of whom are software engineers—DMSi has grown by continually reinvesting in innovation. But when Section 174 amortization took effect, that model was turned upside down. In 2022, the company's taxable income shot to three times its book income, and its tax bill increased to four times what it had been—despite no substantial increase in actual revenue. In 2023, nearly all of DMSi's book income was projected to go to taxes, leaving little to invest in its people, products and growth. That math simply doesn't work for small, private businesses.

This is exactly the kind of company that Section 174 hurts the most—a deeply rooted, middle-America employer that serves an essential, real-world industry and reinvests in its workforce. Without relief, companies like DMSi will struggle to sustain growth, retain talent, and continue innovating—all while facing tax burdens that favor their larger or international competitors.

Macroeconomic Implications

What's happening to our members is not an anomaly—it's a warning sign. And it's not just a tax issue – it's a direct threat to America's innovation economy. The impact of Section 174 amortization is rippling through the economy, stalling innovation, costing jobs, and putting U.S. leadership at risk.

Since the amortization requirement took effect in 2022, the rate of growth in R&D spending has slowed dramatically. After growing at an average annual rate of 6.4% over the five years prior, R&D growth has decelerated for 10 consecutive quarters and now sits at less than half the pre-2022 rate[1]. This is not just a dip—it is a structural shift that, if not reversed soon, could lead to permanent reductions in R&D investment as projects are shelved and budgets are cut.

This is not the global standard. The United States is now one of only two developed countries that requires R&D amortization instead of allowing immediate expensing. In contrast, 17 countries offer super deductions, some of which allow deductions of more than 100% of eligible R&D expenses. China, for instance, has permanently expanded its R&D deduction, offering 20 times greater first-year deductibility than the U.S. for the same investment. These incentives matter, and capital is moving accordingly.

The implications go beyond economics—they touch national security. As outlined in the White House's *2024 Quadrennial Science and Technology Review*, "Science and technology are central to today's geopolitical competition and to the future of our national security, economy, and democracy. U.S. and allied leadership in science, technology, and innovation has long underpinned our economic prosperity and military strength." The report further emphasizes that "our national research, development, and engineering capabilities across the public and private sector" are essential to protecting national security. Weakening America's innovation base weakens our strategic posture and our ability to lead.

Congress must act this year to restore full, immediate deductibility of R&D expenses and protect the innovation capacity of American businesses—especially the small and mid-sized companies that are most vulnerable. Failure to act risks not only our economy, but our future.

Our Request to Congress

TECNA respectfully urges Congress to restore 100% immediate expensing of R&D costs under Section 174—and provide retroactive relief to 2022 for small businesses.

We recognize that fully retroactive relief for all companies may face fiscal constraints. However, a targeted, retroactive carve-out for small businesses is both achievable and essential. These companies lacked financial flexibility to weather the sudden change in tax policy and, unlike large corporations, had no reserves or international tax strategies to buffer the impact. As a result, they were forced to take on debt, drain personal savings, lay off skilled workers, and halt innovation.

Providing retroactive relief for small, R&D-intensive businesses would:

- Allow innovative companies to recover unjust tax burdens that were applied to salaries and investments already made in good faith.
- Enable repayment of emergency loans and personal capital used just to keep operations afloat and teams intact.
- Restart stalled hiring and product development cycles, reenergizing the innovation pipeline at the heart of U.S. job creation.
- Reaffirm America's global leadership in innovation, particularly among the small firms that drive agility, competition, and technological breakthroughs.

This is a pivotal moment. The damage from Section 174 is real, measurable, and growing. Without swift legislative action, we risk watching some of our most promising tech innovators downsize, sell to foreign competitors, or shut their doors entirely.

Thank you for your time and for your commitment to supporting America's innovation economy.

Sincerely,

Jennifer Young
Chief Executive Officer
Technology Councils of North America (TECNA)

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[1] https://fred.stlouisfed.org/series/Y006RX1Q020SBEA#0

U.S. Chamber of Commerce

1615 H Street, NW
Washington, DC 20062-2000
uschamber.com

April 29, 2025

The Honorable Joni Ernst
Chair
Committee on Small Business &
Entrepreneurship
United States Senate

The Honorable Ed Markey
Ranking Member
Committee on Small Business &
Entrepreneurship
United States Senate

The Honorable Roger Williams
Chairman
Committee on Small Business
United States House of Representatives

The Honorable Nydia Velazquez
Ranking Member
Committee on Small Business
United States House of Representatives

Re: Letter for the Record: April 8, 2025 Joint Hearing titled *Prosperity on Main Street: Keeping Taxes Low for Small Businesses*

Thank you for convening the hearing titled *Prosperity on Main Street: Keeping Taxes Low for Small Businesses*. The U.S. Chamber of Commerce is pleased to submit this letter for the record on this critically important topic.

The U.S. Chamber of Commerce ("Chamber") is the world's largest business federation. It represents approximately 300,000 direct members and indirectly represents the interests of more than 3 million companies and professional organizations of every size, in every industry sector, and from every region of the country. And like the percentage makeup of small businesses in the United States, most of the Chamber's membership consists of small businesses.

Beyond our small-business members themselves, the Chamber benefits from the insights and advice of our Small Business Council, which is the policy committee made up exclusively of small business owners who work to ensure their views are considered as part of the Chamber's policy-making process. Several leaders from our Small Business Council traveled to Washington last October and in March to meet with members of Congress and staff on the importance of legislative action that must be taken this year to prevent a massive tax increase on small businesses.

Small businesses form the backbone of our economy, employing nearly half of the American workforce and contributing significantly to innovation and community development. Pro-growth tax policies like the 20% deduction for pass-through business income, the deduction for research expenses, and 100% bonus depreciation (full capital expensing for certain business assets) are critical to maintaining their competitiveness.

Preserving the Deduction for Qualified Business Income

To ensure that pass-through businesses like sole proprietorships, partnerships, and S corporations—including most small businesses—would not be placed at a major tax disadvantage relative to C corporations, the 2017 Tax Cuts and Jobs Act ("TCJA") established a new 20% deduction for qualified business income ("QBI") in section 199A of the Internal Revenue Code. Coupled with TCJA's reduction of the top marginal individual income tax rate from 39.6% to 37%, the QBI deduction results in a top marginal rate of 29.6% for most pass-through businesses. And since it took effect in 2018, the deduction has increased the after-tax return on capital investments in pass-through businesses and boosted the amount of revenue accruing to workers through higher wages. Last year alone, the total U.S. economic activity supported by the QBI deduction was estimated to be 2.6 million workers earning $161 billion and generating $325 billion of gross domestic product ("GDP").[1]

Small Business Council member Brendan McClusky, President of Trident Builders in Baltimore, came to Washington in March to meet with lawmakers on the importance of making the QBI deduction permanent. Brendan explained that the 20% deduction made it possible for him to institute a 401(k) program, including matching for employees. There are countless other examples of how the QBI deduction has liberated capital and allowed small business owners to reinvest in their businesses, their employees, and their communities.

For these reasons, the Chamber strongly supports the Main Street Tax Certainty Act that was recently reintroduced in both houses of Congress.

Restoring the Deduction for Research and Development Expenses

For nearly 70 years, U.S. businesses had been allowed to immediately deduct 100% of their research and development ("R&D") expenses, which include costs associated with the development, testing, and improvement of products and services. As of January 2022, however, businesses have been required to amortize (deduct ratably) their domestic R&D expenses over five years and their foreign R&D expenses over 15 years, reducing the real value of those deductions due to inflation and the time value of money.[2]

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[1] Ernst & Young LLP, *Economic Activity Supported by the Section 199A Deduction* (Aug. 2024), https://s-corp.org/wp-content/uploads/2024/09/EY-SCA-Economic-activity-supported-by-Section-199A-deduction-August-2024-FINAL.pdf.

[2] Through the combination of inflation and the opportunity cost of delaying the deduction (i.e., what the money could have otherwise earned), businesses cannot fully recover the cost of their R&D investments.

The past Chair for our Small Business Council, Natalie Kaddas, President & CEO of Kaddas Enterprises in Salt Lake City UT, a second-generation small family business, explained in the *Salt Lake Tribune* that 18% of wages in her thermoformed plastic part manufacturing company support R&D and the inability to deduct those wages resulted in a 35% tax hike.[3] Her example mirrors the experiences of other small manufacturers whose capital can no longer be re-invested in the growth of their businesses, higher salaries, technology improvements, and more robust benefits for their employees.

For those reasons, the Chamber strongly supports the American Innovation and R&D Competitiveness Act, which was recently reintroduced in the U.S. House of Representatives.

Restoring a Pro-Growth Interest Deductibility Standard

Debt financing plays an important role in supporting growth. Many businesses need to borrow funds to finance long-term investments in equipment and facilities, which in turn help create jobs and enable them to compete effectively. Since January 2022, however, American businesses have been subject to a new, stricter limitation on their ability to deduct interest expense based on an earnings-before-interest-and-taxes ("EBIT") standard. This new EBIT-based interest deductibility limitation has increased the after-tax cost of capital, which reduces investment in the U.S. economy and adversely affects jobs, employee compensation, and GDP.[4] A significant portion of the stricter interest deductibility limitation is estimated to fall on workers through reduced labor productivity, wages, and employment portion.[5] And of the 35 countries with earnings-based interest deductibility limitations, all but the United States still use the more competitive earnings-before-interest-taxes-depreciation-and-amortization ("EBITDA") standard.

For these reasons, the Chamber strongly supports the American Investment in Manufacturing and Main Street Act (AIMM), which was recently reintroduced in the U.S. House of Representatives. Restoring full bonus depreciation would encourage small businesses to modernize operations and remain competitive.

Restoring 100% Bonus Depreciation

Since the TCJA's passage through 2022, American businesses were allowed to immediately and fully deduct their costs associated with the purchase of certain capital assets,

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[3] Natalie Kaddas, Opinion, *On Tax Day, Small Businesses Call on Congress to Help American Manufacturing Compete*, Salt Lake Trib., Apr. 18, 2023, https://www.sltrib.com/opinion/commentary/2023/04/18/natalie-kaddas-tax-day-small/.

[4] Ernst & Young LLP, *Economic Impacts of a Stricter 163(j) Interest Expense Limitation* (Oct. 2023), https://documents.nam.org/COMM/EY_NAM_Economic_Analysis_163j_Limitation_FINAL_10_06_2023.pdf.

[5] The scale of U.S. economic activity disrupted by the stricter EBIT-based interest expense limitation, before market adjustment, is estimated to be 867,000 workers earning $58 billion of compensation and generating $108 billion in GDP. *Id.*

including equipment, machinery, and other qualified property under a policy known as "100% bonus depreciation." This change was heralded by economists as a powerful pro-growth tax policy that eliminated a tax bias against capital investment and would help businesses invest, create jobs, and lift the economy while simplifying the tax system.[6] And recent research has confirmed 100% bonus depreciation as one of the most impactful tax policies for business investment.[7] Starting in 2023, however, bonus depreciation has declined by 20 percentage points each year, increasing the after-tax cost of purchasing new machinery and equipment. It is currently scheduled to phase out completely after 2026, which will lead to less investment, fewer jobs, lower wages, and slower economic growth.

For those reasons, the Chamber strongly supports the Accelerate Long-term Investment Growth Now (ALIGN) Act that was recently reintroduced in both houses of Congress.

Conclusion

The Chamber is grateful for both Committees holding this hearing that will highlight the importance of keeping taxes low so that small business owners are able to reinvest in their employees through higher wages and more generous benefits. We urge Congress to prioritize making these provisions permanent and restoring full tax benefits where reductions have occurred. Small businesses thrive when provided with certainty and opportunities to reinvest earnings into their operations, employees, and communities.

Thank you for your leadership on these critical issues. We look forward to working together to ensure continued prosperity on Main Street.

Sincerely,

Thomas M. Sullivan
Senior Vice President
Small Business Policy
U.S. Chamber of Commerce

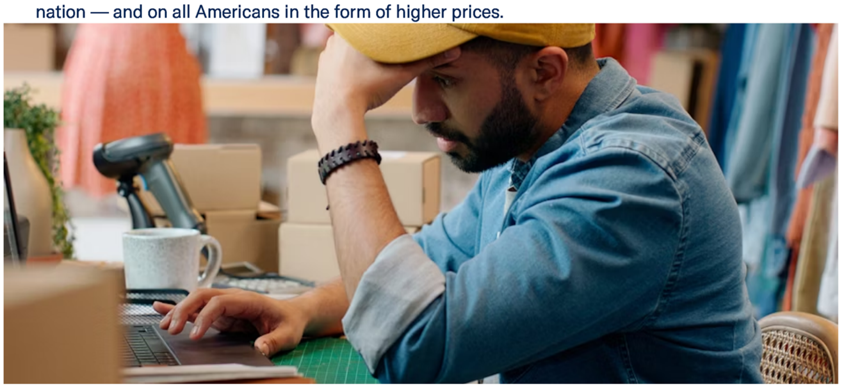
[6] *See, e.g.*, Alex Muresianu & Erica York, Tax Found., *How Did the Tax Cuts and Jobs Act Change Cost Recovery* (May 20, 2024), https://taxfoundation.org/blog/tax-cuts-and-jobs-act-expensing/.

[7] *See* Gabriel Chodorow-Reich et al., *Lessons from the Biggest Business Tax Cut in U.S. History*, NBER Working Paper No. 326272 (July 2024), https://www.nber.org/papers/w32672.

U.S. Chamber of Commerce

'A matter of survival': Small Businesses Speak Out on Tariffs

Tariffs are having a real and devastating impact on thousands of small businesses across the nation — and on all Americans in the form of higher prices.



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Small businesses around the country are speaking out about tariffs — the months of worrying about levies and countermeasures, trying to prepare amid uncertainty, and the impacts that came into devastating focus on April 2 as the Trump administration announced "reciprocal" tariffs on approximately $3 trillion of imports.

As they spoke of the biggest tax increase in America in 50 years, they shared stories of canceled bookings, rising costs, stockpiling supplies, and, ultimately, the fear of having to pass the cost of tariffs on to consumers. Or worse.

Even those that can pass the cost on to customers immediately say they are worried the added costs will impact their ability to remain competitive and profitable — or to grow.

Here's what they're saying.

Reaction to 'Liberation Day'

"The ongoing tariffs are having a direct impact on our vacation rental business, with cancellations from Latin American and Canadian guests and a noticeable drop in new bookings from these markets. While European travelers haven't begun canceling, they are holding off on making reservations, adding to the uncertainty. Combined with rising costs and broader economic volatility, these shifts are creating real pressure on our family business."

— **Heleena Sideris,** general manager, Park City Lodging, Park City, Utah, and U.S. Chamber's Small Business Council member.

"Hitting companies like mine with tariffs that will make a container of my product cost $100,000 more doesn't help small businesses. It crushes us."

— **Adam Fazackerley**, COO and co-founder, Lay-n-Go, Alexandria, Virginia, and U.S. Chamber Small Business Council member.

"There is no predictability. … I'm concerned about what a 25% tariff will do. I already know that my costs are increased, we're all just kind of holding our breath. … Pie is a happy thing, and I want it to stay that way. I want people to be able to afford my product."

— **Avid Renshaw**, founder, Mom's Apple Pie Company, Leesburg, Virginia, to NBC4.

"As a restaurant owner of five properties, we are closely monitoring the costs of all of our food, beverage, and equipment daily. Just this past week, we purchased $3,000 in chafers on March 31 because they were going up 15% in price the next day, April 1. At our higher-end restaurant Urban Hill, we have purchased over $10,000 in foreign wines over the past month to prepare for tariffs."

— **Brooks Kirchheimer,** co-founder, Hill Top Hospitality, and a member of the U.S. Chamber's Small Business Council.

"It's a big shock to the system. We're going to have no choice but to pass this on, a portion of it, to our customers. It's a matter of survival."

— **Craig Freedman,** CEO, Freedman Seating, Chicago, Illinois, to ABC 7 Chicago.

Impact on Business Growth

"Our company, Bonsai Design, is an industry leader in the design and installation of world-class aerial adventure ranging from zip lines and drop towers to adventure parks. We rely heavily on steel as well as industry-specific materials in the global marketplace. Many of our materials are imported. These newly initiated tariffs could result in rising costs, which would cause us to lose our clients. We are concerned that the price increase of our raw materials and goods will be prohibitive for us to sell our products in the U.S. market."

— **Sarah Shrader**, owner and co-founder, *Bonsai Design*, Grand Junction, Colorado

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"My company will feel an immediate, detrimental impact as a result of these tariffs. The threats and uncertainty have made it hard to make business decisions, and these kinds of tariffs will make it extremely difficult for small businesses like mine to grow."

— **Traci Tapani**, co-president of *Wyoming Machine*, a sheet metal fabricator in Minnesota that purchases aluminum from Canada. Tapani serves as Vice-Chair of the U.S. Chamber's Small Business Council.

"We are a small custom metal products manufacturer. The increase in steel and aluminum tariffs directly impacts the input costs of our business, whether or not the metals we are buying are imported or not. Domestic producers are increasing their prices too...It's a simple tax increase for us that we can't absorb. We are raising our prices also, and seeing customers delay or cancel projects."

— **Sandra Ryan**, vice president of operations, *Ryan Industries, Inc.*, Hillsboro, Oregon

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Impact of Tariffs

Are tariffs impacting your business?

Share Your Story

"The effect is the cost of our food goes up and affects profitability, affects paying wages — it affects everything ... It's been a struggle."

— **Robby Naim**, co-owner, *Forgotten Bakery*, Sacramento, California, to KXTV

"Ever since the announcement there was going to be tariffs on Mexico and Canada, we saw prices on all materials, including domestic materials, start to increase ... we're talking 75 cents or so on a case of any of our beverages being produced."

— **Bill Baburek**, owner, *Crescent Moon*, Omaha, to Omaha WOWT

Scrambling to Adapt

Small business owners say tariffs will impact their ability to grow and hire and are already making them less profitable.

Scrambling to Adapt

"[Lumber] has already been getting more expensive over the past few years due to supply chain shocks and wildfires, and a huge proportion of our lumber comes from Canada. These tariffs are going to make everything we do considerably more expensive, at a time when the high-priced housing market and high interest rates are already cutting into our bottom line."

— **Bar Zakheim**, owner, *Better Place Design & Build*, San Diego, to The Baltimore Sun

"I can't absorb the increased cost of a product."

— Michael Howard, owner, Howard Family Designs, Warren, Michigan, to the New York Times

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"Small businesses run on very small margins. And so a 25% increase in any product is going to hurt. And we can't just raise our prices every time the cost goes up to us. So we are losing a lot of money."

— **Sarah Payne**, owner, *Denver Concrete Vibrator*, Denver, to the Associated Press

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Anxious Business Owners

"Our company, DensityUSA, a security fog business located in St. Louis, Missouri, is concerned about experiencing significant challenges due to the looming threat of new tariffs, and the uncertainty surrounding potential retaliatory measures. As a growing small company, these tariffs and tariff threats could not only hinder our capacity to expand and create jobs but also serve as a substantial obstacle for many similarly situated small companies. While the negative impact of tariffs on consumers is well-known, it is crucial to recognize that they also pose serious barriers to growth for businesses like ours."

— **Mike Egel**, president, *DensityUSA*, St. Louis, Missouri

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"I'm very concerned. It's just another tax. We're getting taxed to death."

— Dennis Percy, general manager of Fred's Energy, whose trucks pick up energy in Canada and deliver it to customers in Northern Vermont, to The Boston Globe

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"We pursued our dreams 25 years ago and opened a manufacturing company for mountain bike components in Grand Junction, Colorado.

While we manufacture many of our products in the United States, we still import some key components and raw materials to support our production. And more importantly, we also export to Europe and Asia resulting in almost 50% of our annual revenue. Additional tariffs on the components and raw materials we are importing will increase our costs and increase the likelihood of retaliatory tariffs on our exported products adding additional headwinds against our small business.

I want to be optimistic that the new tariffs will be lifted soon and allow our company, and our dream, to continue to flourish. But being realistic, I am very concerned about the negative impacts of a trade war and our ability to continue to support our employees and our community."

— **Tim Frey**, president and CEO, *MRP Bike*, Grand Junction, Colorado

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"Tariffs are going to affect the price of beer. It's also going to affect the long-term stability of a lot of these businesses. A lot of your favorite local breweries are going to be feeling that pain."

— **Matt McMahon**, owner, Eleventh Hour Brewing Company, Pittsburgh, to CBS News

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"I'm a smaller business, and I'm not really staffed, equipped, and knowledgeable enough to know how to navigate tariffs. It is very hard to have that level of uncertainty. Are the tariffs going to be in play, or are they not?"

— **Bryan Szeliga**, owner, Fishtown Seafood, Haddonfield, New Jersey, to the Associated Press

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Weighing the Cost of Staying Open

"I'm afraid we'll have to close our doors because people won't have the money to come and shop for things like piñatas and all the traditional Mexican candy that people love."

— **Yesi Noyola**, owner, *Kandy Queen Dulceria*, North Richland Hills, Texas, to CBS Texas

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"People can't pay more for stuff, and won't pay more for items. ... Your items shrink to the point where you're really going to evaluate if you'll keep certain shops open."

— **Sarah Pitkin**, owner of four hardware stores in Virginia, to the New York Times

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"I'd have to double my prices and that would put me out of business."

— **Annie Bassin**, founder, *Annie's Ginger Elixir*, Brooklyn, New York, to The City

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"It's going to be harder for us to stay open."

— Jennifer Zimmerman, owner, No Gluten Needed, Bohemia, New York, to the New York Times

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"If I get hit with those tariffs mid-year, it's going to be an absolute killer on the business."

— **Dana Chadwell**, owner, *Chattanooga Yarn Co.,* Chattanooga, Tennessee, to Local 3 News

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Cost to Consumers

"Is this going to affect our business? You bet it is. I don't like what's going on. And I think people are going to be truly shocked at the pricing they're going to see on the cars, on the lumber, on the clothes, on the food. This is going to be a mess."

— **Linda Schlesinger-Wagner**, owner, *skinnytees*, Birmingham, Michigan, to the Associated Press

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"Our customers' products are in your everyday lives. We've made it abundantly

clear. If tariffs are increased or added, we cannot absorb them."

— Jim Derry, CEO, Field Fastener, Rockford, Illinois, to Bloomberg

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"The recent increase in tariffs on imported goods will have a significant negative impact on my business. Many of the products I sell are imported, higher tariffs will directly raise my costs.

These increased costs will force me to either raise prices, which may drive away customers, or absorb the costs, which will threaten the sustainability of my business. Many of my customers are from immigrant communities who rely on these products as part of their cultural and dietary traditions, and price increases may make essential goods unaffordable for them.

I urge policymakers to consider the real-world consequences of these tariffs on small businesses like mine and the diverse communities that depend on them."

— **Bridget Ofor**, owner, *Nana African Market*, Aurora, Colorado

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"I've already received numerous letters about how prices are going to go up. I can't absorb all of it."

— **Jim Arpe**, owner, *Learning Express Toys & Gifts*, Palm Beach Gardens, Florida, to KXTV

"Unfortunately, we would have to pass on to our customer in order to continue providing a handmade product. We do our best to minimize our price increases to the customer, but ... if we want to stay in business and we want to continue to be able to produce this item, you have to [raise prices]."

— **Misty Skolnick**, co-owner, *Uncle Jerry's Pretzels*, Lancaster, Pennsylvania, to the Pennsylvania Independent

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"As a small business, every penny, every dollar counts, and we don't want to raise costs for our customers. We want them to keep coming back to us. We like the relationships we've developed, and we pride ourselves on not going above and beyond the price."

— **Amanda Carson**, co-owner, *The British Shoppe,* Nashville, to WSMV

"The tariffs would have a very negative effect on me. Actually, for the psyche of the consumer, even if they can afford it, they could be more hesitant to go out and spend money in the first place now."

— **Leonard Simon**, owner, *Wright & Simon*, Wilmington, Delaware, to the Delaware Business Times

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Impact on Americans

While the U.S. Chamber shares concerns about issues including border security, the scourge of fentanyl, and unfair trading practices around the globe, tariffs won't solve those problems and instead would lead to higher prices for Americans.

"The bottom line is this: tariffs are a tax paid by Americans**,** and their broad and indiscriminate use would stifle growth at the worst possible time," Chamber President and CEO Suzanne P. Clark said in her annual State of American Business address. She stressed that to boost economic growth, America must participate in the global economy. That includes seizing opportunities to increase trade.

In 2024, the Chamber unveiled the Growth and Opportunity Imperative for America, an initiative to urge policymakers to focus on a goal of 3% annual real economic growth, which will raise wages for workers and create new opportunities for Americans to reach their dreams.

More about Our Work

CNBC Interview: Tariffs Are a Tax

Tariffs are a tax on businesses and consumers, says U.S. Chamber of Commerce VP Neil Bradley

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Statement on Tariffs: April 2, 2025

U.S. Chamber: Instead of Tariffs, It's Time to Accelerate Pro-Growth Agenda

Statement on Tariffs: March 3, 2025

U.S. Chamber Urges Swift End to Tariffs Set to Go into Effect; Highlights Real Harm to American Businesses, Workers, and Consumers

Statement on Tariffs: Feb 3, 2025

U.S. Chamber Welcomes Pause, Calls for Permanent End to Tariff Threats

Statement on Tariffs: Feb. 1, 2025

U.S. Chamber: Tariffs Are Not the Answer

Exclusive in Axios

Top business group: Yes to deregulation, no to blanket tariffs

CNBC Interview: Trade Should Be a Broader Agenda Item

We want trade to be a broader agenda item, says U.S. Chamber of Commerce CEO Suzanne Clark

Topics

INTERNATIONAL TRADE AGREEMENTS SMALL BUSINESS

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Vertex Pharmaceuticals is a U.S. R&D innovation company headquartered in Boston, Massachusetts. Vertex is engaged in the business of discovering, developing, manufacturing and commercializing therapies for patients with serious diseases worldwide. Vertex has multiple approved medicines that treat the underlying cause of cystic fibrosis, a life-threatening genetic disease that effects the lungs and digestive systems and leads to progressive decline in lung function including chronic lung infections and lung inflammation. Additionally, Vertex has an approved therapy that treats severe sickle cell disease and transfusion dependent beta-thalassemia, both life-shortening inherited blood disorders.

As part of the Tax Cuts & Jobs Act, starting in 2022, Vertex, like its industry peers, has been required to add back research and development expenses qualifying under IRC section 174 and amortize such expenses over 5- or 15-years. Since 2022, Vertex has had to capitalize over $13 billion in qualified research expenditures and accelerated payment of almost $2 billion in income taxes to the U.S. and state governments. This acceleration in income taxes over these last 4 years equals over 25% of the annual R&D expenditures, meaning that instead of these funds being put back into developing its ground-breaking science, Vertex paid the US fisc which amounts to no more than a timing item used as a revenue raiser for the 10-year budget window.

Although it is a large company, Vertex does not have infinite resources, and payment of an extra $500 million in taxes per annum means that innovative medicines are delayed in getting to patients. Vertex is supportive of the return of full expensing for R&D expenditures, not only for itself to get life-changing medicines to patients, but for the entire biotech community and patients.

April 3rd, 2025

WMUR-TV

Arielle Mitropoulos

www.wmur.com/article/concord-nh-store-concerned-new-tariffs-040325/64371485

Concord store carrying European products concerned about long term impact of new tariffs

Emily Glavin, manager and buyer at the Viking House in Concord, was panicked when she heard the news on Wednesday that President Donald Trump would implement a 20% tariff on the European Union.

"It is definitely scary to look at that," Glavin told News 9 in the hours after the announcement. "I had a feeling that there was going to be something. I was hoping that it was going to be capped kind of at the 10%. Today's announcement of 20% definitely came as a shock. It was definitely a lot higher than we were; we're kind of anticipating. So, we've been bracing ourselves for a little bit, but it was definitely a little unexpected."

Glavin has been the manager and the buyer at the Viking House for more than a decade, where they sell gifts, clothes, and food from all over Europe. She has carried the store through COVID-19 and many other tough times, but this is another challenge.

"I'm hoping that we'll be able to work together. I really, well to kind of mitigate the worst of this and maybe split the split the cost. But ultimately, those costs will be passed on to us," Glavin said.

Maintaining relationships with vendors in Europe has been critical to the store's success, Glavin said.

"That is a little bit scary because we have such wonderful relationships with so many companies," she said, adding that she worries there will be some animosity from their European partners. "I also think that there are some countries that, in light of this, might say, you know what? We're good. We're not going to work with you anymore."

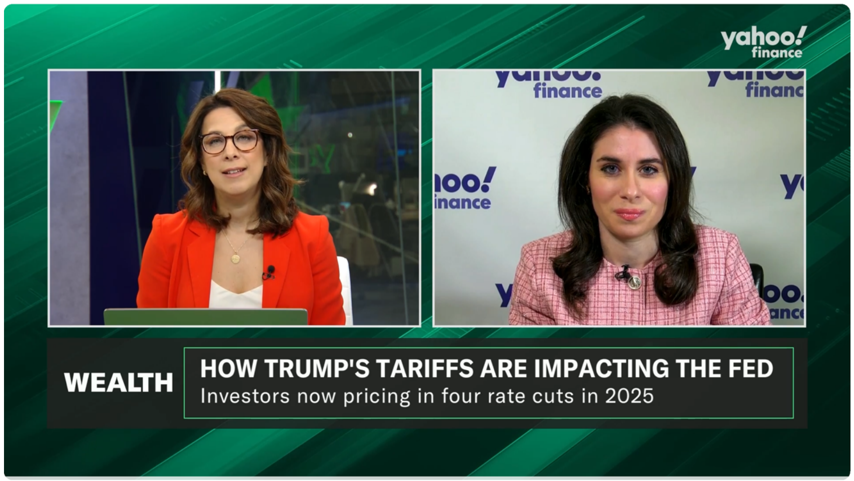
For now, Glavin said that their team is going to do everything in their power not to have to pass down higher prices to customers.

"I'm crossing my fingers. It's not too painful, and we sure will appreciate everybody who continues to support us, knowing that this is what we do," she said.

LIVE Tariff updates: Trump escalates threats on China as markets remain jittery →

yahoo!finance

JPMorgan becomes the first Wall Street bank to forecast a US recession following Trump's tariffs



Josh Schafer · Reporter
Fri, April 4, 2025 at 6:20 PM EDT • 3 min read

In This Article:

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JPMorgan believes the US economy will enter a recession in the back half of 2025 as the impact of President Trump tariffs takes hold in the economy.

The firm's chief US economist Michael Feroli sees a two-quarter recession occurring in the back half of 2025 as GDP contracts by 1% in the third quarter of the year and by 0.5% in the fourth quarter. For the full-year 2025, Feroli's team projects GDP will fall by 0.3%.

"We now expect real GDP [gross domestic product] to contract under the weight of the tariffs," Feroli wrote in a note to clients on Friday night.

Feroli added that a "recession in economic activity" will push the unemployment rate up to 5.3%. New data from the Bureau of Labor Statistics released on Friday showed the unemployment rate stood at 4.2% in March. While other economists have noted the risks to recession are rising, JPMorgan marks the first major Wall Street research team to forecast a recession as Trump's tariffs weigh on economic growth.

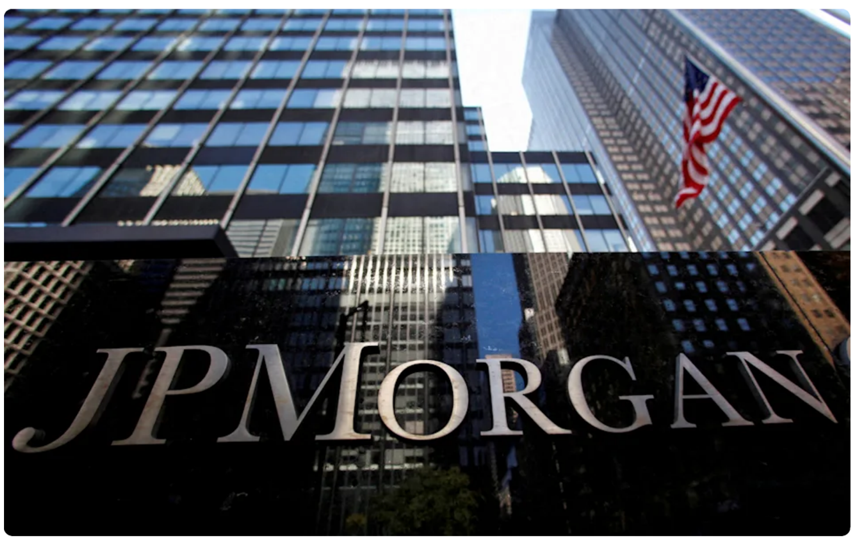
"The pinch from higher prices that we expect in coming months may hit harder than in the post-pandemic inflation spike, as nominal income growth has been moderating recently, as opposed to accelerating in the earlier episode," Feroli wrote. "Moreover, in an environment of heightened uncertainty consumers may be reluctant to dip too far into savings to finance spending growth."

Broadly, economists have agreed that Trump's reciprocal tariffs — which include broad 10% duties and further levies on select trading partners — will spike inflation and hamper economic growth. In Feroli's base case, core PCE, the Fed's preferred inflation gauge, would end 2025 at 4.4%. The February reading of core PCE showed prices increased 2.8%.

Feroli's forecast projects a "stagflationary" environment, where prices increase while growth slows. Given the Fed's dual mandate for maximum employment and price stability, this could put the central bank in a quandary. As of Friday, markets had priced in four interest rate cuts from the Fed amid growing concerns about the trajectory of the US economy.

Read More: What is stagflation, and how does it impact you?

"If realized, our stagflationary forecast would present a dilemma to Fed policymakers," Feroli wrote. "We believe material weakness in the labor market holds sway in the end, particularly if it results in weaker wage growth thereby giving the Committee more confidence that a price wage spiral isn't taking hold."



FILE PHOTO: A sign outside the headquarters of JP Morgan Chase & Co in New York, September 19, 2013. REUTERS/Mike Segar/File Photo · REUTERS / Reuters

After Fed Chair Jerome Powell reiterated a patient approach to adjusting monetary policy during a speech on Friday, Feroli noted a "risk" is the Fed doesn't feel confident enough in the slowing

Story Continues

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