

**IS THE TAX CUTS AND JOBS ACT A HELP
OR HINDERANCE TO MAIN STREET?**

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IS THE TAX CUTS AND JOBS ACT A HELP OR HINDERANCE TO MAIN STREET?

WEDNESDAY, JULY 24, 2019

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,

Washington, DC.

The committee met, pursuant to call, at 11:32 a.m., in Room 2360, Rayburn House Office Building. Hon. Nydia Velázquez [chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Finkenauer, Golden, Kim, Davids, Chu, Evans, Schneider, Delgado, Houlahan, Craig, Chabot, Balderson, Hern, Hagedorn, Stauber, Spano, and Joyce.

Chairwoman VELAZQUEZ. Good morning. The committee will come to order.

I thank everyone for joining us this morning, and I want to especially thank the witnesses for being here today.

America's small businesses are a catalyst for creating employment opportunities and driving growth in the U.S. economy. The estimated \$30 million small firms in the U.S. represent 99 percent of all employers and support nearly 56 million jobs.

One way for Congress to support small businesses is through well-conceived and targeted tax policies that help small businesses to grow and expand. Over the years on this committee, we have heard that small firms need a simple tax code, one that levels the playing field and tax policies that create certainty for small companies across the country.

It has now been a full year since full implementation of the tax law, and by any objective measure the Tax Cuts and Jobs Act shortchanged small firms.

Take, for example, the signature piece of the Trump-led tax law, a permanent reduction of the corporate tax rate from 35 percent to 21 percent, a simple, easy to understand, permanent benefit for corporate America. This tax cut for Wall Street will not only balloon our deficit; it puts big business over small. This is because 95 percent of the over 33 million small businesses in the United States are not organized as corporations and will not see any benefit from a lower corporate tax rate. Unlike the permanent reduction in the corporate tax rate, provisions meant to benefit small firms, like increased Section 179 expensing allowance are set to expire.

Small business owners deserve the same certainty that the tax law currently provides large corporations, and this is another example of a missed opportunity to meet their needs.

We will also hear today about Section 199A which was intended to level the playing field by creating a new deduction for small business income. Unfortunately, we have heard that this provision is incredibly complex and penalizes small business owners simply for operating in a particular industry. We have also heard horror stories from CPAs and small firms attempting to utilize this provision with little or no guidance from the IRS, leaving some small firms wondering if their next phone call is not from a customer but rather one from the IRS audit division.

For the small firms that have used it, many have spent countless hours and money on tax professionals only to find out that the costs and time wasted outweigh any benefit. This is not the simple, straightforward tax reform small businesses deserve or demanded, and it is certainly not the simple tax cut that corporate America received.

What we are seeing nearly a year after the tax law was passed is that Main Street sees little to celebrate. That is why it is not surprisingly that nearly 50 percent of small firms said that the new tax laws have no impact on the growth or profitability of their business. And when small businesses are short changed, so too is the rest of our economy.

The Republican-led tax bill promised to pay for itself, lead to increased economic growth, and create higher wages for American workers. In fact, the exact opposite has happened. Deficits are rising, growth is slowing, and there is no indication of any wage increases for middle-income workers. And we also know that the President's words rang hollow when he said the rich will not be gaining at all in this plan. A doubling of the estate tax exemption, corporate stock buybacks of nearly \$1 trillion in 2018 alone, and the top 1 percent receiving an average tax cut of over \$60,000 demonstrates the wealthiest among us did gain while small businesses and working families were an afterthought.

At a time when small entities are reeling from trade tensions with some of our largest trading partners, real tax reform will put Main Street ahead of Wall Street.

The fact is real bipartisan tax reform that helps small businesses, American families, and is fiscally responsible could have been achieved. Unfortunately, the tax law was pushed through rapidly, aimed at achieving a political goal, a goal that is not good for small businesses, not good for working families, and not good for the economy.

It is my hope that this hearing will shed light on the many issues small businesses are facing and Congress can work together just like this committee does day in and day out to find more responsible tax solutions that truly help small firms and strengthens our economy for the long term.

With that I want to again thank each of the witnesses for joining us, and I look forward to your testimony.

Now, I will yield to the Ranking Member, Mr. Chabot, for his opening statement.

Mr. CHABOT. I thank the gentlelady for yielding.

We oftentimes in this Committee say how bipartisan we operate. And just last week we passed five bills that were bipartisan. It had

to do with small business veterans and having opportunities to create jobs and do well in this country.

This is one of those times when we do not necessarily agree but we will do so respectfully, and we can disagree without being disagreeable, even though she was just wrong on everything she said.

No, I am joking. Just kidding. Not kidding. No, really.

But we really do care about each other in this Committee, but this is one where we just philosophically have some differences.

Almost exactly a year ago, this Committee held a hearing on the impact of tax reform on small businesses across our nation. As I mentioned in that hearing, the economic and philosophical debate on tax benefits will surely continue as it is here today in this Committee. However, the success of the Tax Cuts and Jobs Act will be measured on its direct impact on the ground in people's lives, both individuals and small businesses. Simply put, are small businesses better off now compared to where they were before tax reform was implemented?

Today, the national unemployment rate stands at about 3.7 percent. This hovers around historic record lows. Consumer spending is up, and retail sales have also increased. Pro-growth policies are moving this economy in the right direction.

At the small business level, surveys across the country show the same thing. Small business owners remain very optimistic about this economy. According to the latest U.S. Chamber of Commerce and MetLife Small Business Index from the second quarter of 2019, almost 60 percent of small businesses say the economy is in good health or better. In the same survey, nearly 70 percent of all small business manufacturers had a positive outlook for the economy. Seventy percent in an industry that has been hit for quite some time. The NFIB Monthly Survey also remains near record levels.

When small business owners are asked specifically about the tax reform, we are seeing basically the same results. Within NFIB's 2019 report on taxes, nearly 75 percent, or three out of every four businesses reported that tax reform would have either a positive or very positive effect on their business.

Beyond statistics and survey data, it is not hard to see the impact in our communities. Trucks carrying goods and products are bustling up and down our roads, and stores are keeping their lights on late at night and they are hiring people.

However, it is best said from small business owners themselves. I have a whole series of letters from small business folks in my district that all say essentially the same thing; that tax reform allowed them to invest and expand their businesses. Just to name a few of these, E-BEAM Services, Inc.; Harrison's Pro Tree Service; Minuteman Press of Lebanon; Jim Osborne Trucking; Honor Construction and Remodeling; Total Quality Manufacturing; and on and on.

We can debate economics all day long, but when small business owners are using the Tax Cuts and Jobs Act to reinvest in their companies, their employees, and their communities, the intended effect of that legislation is being realized all across America, and certainly in my district. It is clear, small business owners are able to hire more workers, give bonuses, and reinvest in equipment be-

cause of the Tax Cuts and Jobs Act. As a result, the small business economy is healthier now as compared to a few years ago.

I think we look forward to hearing from our witnesses today. We want to thank them for their participation, and I would just note as in all hearings, the majority gets to pick 75 percent of the witnesses, three out of four, so my guess is three out of four are maybe going to have a different view than me here, but we will disagree without being disagreeable as well.

So thank you all for being here and I yield back.

Chairwoman VELAZQUEZ. Thank you, Mr. Chabot. And the gentleman yields back.

And if committee members have an opening statement prepared, we will ask that they be submitted for the record.

I would like to take a minute to explain the timing rules. Each witness gets 5 minutes to testify and the members get 5 minutes for questioning. There is a lighting system to assist you. The green light will be on when you begin, the yellow light comes on when you have 1 minute remaining, and the red light comes on when you are out of time, and we ask that you stay within the timeframe to the best of your ability.

I would now like to introduce our first witness, Ms. Jane Gravelle. Ms. Gravelle is a Senior Specialist in Economic Policy at the nonpartisan, independent, Congressional Research Service. Ms. Gravelle has written extensively on economic tax, among other issues.

Our second witness is Mr. Grafton Willey, IV, a CPA and small business owner. Mr. Willey has more than 30 years of experience as a tax accountant and consultant to privately-held business owners. He has twice been selected as the Rhode Island Small Business Accounting Advocate of the Year and once as the New England Small Business Accounting Advocate of the Year by the National Small Business Association. He is testifying today on behalf of NSBA and the Rhode Island Society of CPAs.

Our third witness is Muneer Baig, founder and CEO of SYSUSA, Inc., in Manassas, Virginia. He has over 2 decades of experience in IT operations, government risk management, and compliance. Prior to SYSUSA, Mr. Baig worked at Microsoft where he was responsible for the development and execution of an enterprise-wide information security risk assessment program. He is testifying today on behalf of the Small Business Majority, a national small business advocacy organization founded and run by small business owners.

And now I would like to yield to our Ranking Member to introduce our final witness.

Mr. CHABOT. Thank you, Madam Chair.

Our witness here, the final witness today will be Justin Conger. Mr. Conger is president of Conger Construction Group in beautiful Lebanon, Ohio, which happens to be located within my congressional district. It is a really beautiful, beautiful town. Conger Construction Group has been a trusted leader in southwestern Ohio since it was founded in 1992 by Justin's father, Larry. Justin Conger took over the role of President of the company in 2016, and really has not looked back. Beyond his role with the construction firm, Mr. Conger serves on the Workforce Investment Board of Butler, Clermont, and Warren County. Additionally, he is a board

member of the Warren County Chamber Alliance. For those of you that do not know Warren County, it is northeast of downtown Cincinnati. It is an area that is really thriving. It is the third fastest growing county out of 88 counties in Ohio. Mr. Conger, we really appreciate you being here today and taking time away from your business. And I yield back.

Chairwoman VELAZQUEZ. Thank you. The gentleman yields back.

And now Ms. Gravelle, you are recognized for 5 minutes.

STATEMENTS OF JANE GRAVELLE, SENIOR SPECIALIST IN ECONOMIC POLICY, CONGRESSIONAL RESEARCH SERVICE; GRAFTON H WILLEY, IV, CPA AND SMALL BUSINESS OWNER, SOLE-PROPRIETOR; MUNEEB BAIG, FOUNDER & CEO, SYSUSA, INC.; JUSTIN CONGER, PRESIDENT, CONGER CONSTRUCTION GROUP

STATEMENT OF JANE GRAVELLE

Ms. GRAVELLE. Thank you for the invitation to discuss the issue of the effect on the December 2017 tax revision, popularly known as the Tax Cuts and Jobs Act on small business.

This revision was estimated to reduce taxes by almost \$1.5 trillion over 10 years. For fiscal year 2018, the Act was estimated to reduce individual taxes by \$65 billion and corporate taxes by \$94 billion, in the case of corporations primarily by reducing the rate from 35 percent to 21 percent. Individual rates were also reduced but by less, and \$28 billion of the individual cut was due to a pass-through deduction that allowed owners of pass-through businesses, such as partnerships and proprietorships taxed under the individual income tax, a 20 percent deduction for certain business income. These individual provisions are scheduled to expire after 2025, but not the corporate rate cut.

The tax cut can affect small businesses through two different mechanisms: by an increase in overall economic growth through demand for their products and through a decrease in tax burdens on investing and operating their businesses.

Most analysts prior to the tax cut projected a relatively small effect on the growth rate in 2018 with the CBO projection of 0.3 percent near the middle of the forecast. Actual growth appeared to be relatively consistent with these effects, growing at slightly below the CBO forecast.

Business investment growth was strong in 2018, but the extent to which that growth is due to the tax cut is unclear. Investment response takes time to plan and is volatile. Also, the components of investment that had the largest incentives did not grow at the highest rates. So the pattern of growth is inconsistent with supply side incentives.

In the intermediate and longer run, forecasters project a wider range of outcomes, although most with a modest growth rate averaging around 4/10th of a percent. I want you to note that this is a change in the level of projected output and not a change in the growth rate. If occurring over 10 years, it implies an annual increased growth rate of 4/100th of 1 percent.

In the longer run, the effects will largely arise from investment incentives, but these incentives will likely be increasingly offset by crowding out as increases in the debt cause resources to be drawn away from private investment.

There is at least a possibility that small business will benefit less from any economic effects particularly in the first few years. As considering investment goods, small business plays a larger role in construction and corporations, a larger role in manufacturing. Focusing on the demand for construction, the overall demand for business structures may be offset by decreased demand for owner-occupied housing due to the reduction in itemizers. These incentives will expire after 2025 if not extended but so will the incentives for small business who are the major investors in business structures and rental housing.

Turning to the direct effects of the tax cuts, small business benefits not only from the pass-through deduction but from the individual tax cuts. An estimate suggests they are of similar importance. With tax rates leading to a 3.8 percentage rate deduction and the pass-through, a 3 percentage point deduction. This is less than half the rate of the corporate rate cut.

The effect of the pass-through deduction is reduced because it is phased out at high income through earnings of ineligible service firms and for other firms if they do not provide enough wages or own enough assets. Estimates indicate that the cost would increase by 66 percent if the phase out were not imposed and the service business restriction was responsible for about 60 percent of that cost saving.

The study also found that three types of business operations were responsible for only half of the reduction from the phase out: professional services, health, and finance and insurance. The pass-through deduction has added complexity, considerable complexity to tax compliance and administration, including equity choice, and has contributed, along with some rate reductions to complications in tax planning. For example, choosing to be an independent contractor would be an example.

For a variety of reasons, the business rate reductions may not be very effective in providing investment incentives because they interact with expensing provisions in a way that causes a disincentive for certain investments because they are phased out, creating disincentives in the phase out range and because they are temporary. Arguments may be made that these tax cuts are important in providing cash flow, although much of a tax cut is likely a wind-fall that does not affect investment.

There are alternative ways to address investment by small business, including increasing access to credit and tying tax deductions directly to investment. Thank you.

Chairwoman VELÁZQUEZ. Thank you. Mr. Willey.

STATEMENT OF GRAFTON H. WILLEY, IV

Mr. WILLEY. Good morning, Chairwoman Velázquez and Ranking Member Chabot and members of the House Committee. In addition to being a CPA, I am also a small business owner. I have an interest in an Italian restaurant and some businesses in the cranberry industry. And so I am here representing myself as a tax

practitioner, myself as a small business owner, and the NSBA and the Rhode Island Society of CPAs.

In responding to questions about taxation, there is always one stand answer which is “it depends.” That is applicable to the Tax Cut and Jobs Act. There are some good things in this bill, there are some bad things in this legislation. I view it as a work in progress. In fact, according to the NSBA Economic Survey, 29 percent of small business owners said that filing taxes in 2018 was more difficult when compared with 2017. And I can tell you the tax practitioners can say the same thing.

In my estimation, the primary need in tax reform was to address the competitiveness that the U.S. was experiencing in the international taxation for C corporations with the highest tax rate in the world or close to it at 35 percent, although some of that was reduced with special deductions. We were getting killed when it came to competing with countries like Ireland at 12.5 percent and much of Europe in the mid-20s. Global financing will find a way to minimize international tax burdens and the movement of capital is very fluid. I believe most in Congress understood that when they were addressing tax reform. Bringing the corporate rate down to 21 percent has kept us competitive and there will be less incentive to move from place to place.

The National Small Business Association established its basic principles of tax reform a few years ago. I was a contributor to that thing. And we have put that in our package. I will not go over those.

The Tax Cut and Jobs Act only partially measures up to these principles. We have concerns that more should be done to ensure simplification, fairness and long-term sustainability. And according to the report, when asked how to fix the Tax Cuts and Jobs Act, parity, simplification, and permanency were the top priorities.

After much discussion and analysis, the NSBA did support passage of the Tax Cut and Jobs Act. However, we recognize that it is not perfect. It may be a good start at tax reform, but more hard work needs to be done in the areas of simplification, parity, and taxation between large corporations and small businesses, doing away with sunsets, making tax reform permanent, and addressing the deficit. The NSBA has done a Tax Reform Report Card, again, which is in your package.

While it covers a lot of different areas of taxation, I will focus on how it has impacted small businesses.

Tax simplification. If simplification was a goal of this tax reform, it is a dismal failure from a small business perspective. Individuals may see what seems to be a simpler preparation but it is not that simple. You may have simplified this Tax Code beyond all comprehension.

Tax permanency or rate reductions. That has been an important aspect of this. Unfortunately, noncorporate and individual taxpayers are not made permanent. When I first heard about this I said, well, it may not be a problem. No Congress in the future would allow those to expire. I have changed my opinion there. I now foresee the real possibility and probability that Congress, not agreeing on an extension in 2025, would result in a substantial tax

increase without a vote. They will be finger pointing both ways and the taxpayers are going to get slammed.

The one issue I would like to comment on is the SALT issue. There is a real concern on my part on SALT. I am not as concerned about the individual real estate and income taxes. I am very concerned about the business taxes. With a C corporation, you get to deduct the SALT taxes on pass-throughs. It falls through to the individuals and we cannot deduct those. In Rhode Island where I am from, I have passed legislation to fix that. Congress should pass it and make that a Federal issue, not a state issue.

Chairwoman VELÁZQUEZ. Thank you, Mr. Willey.

Mr. Baig, you are recognized for 5 minutes.

STATEMENT OF MUNEER BAIG

Mr. BAIG. Chairwoman Velázquez, Ranking Member Chabot, and fellow members of the Committee. Good morning.

I would like to start by thanking you for inviting me to speak with you today about the impact of the 2017 Tax Cuts and Jobs Act on my and other small businesses.

I am the founder and CEO of SYSUSA, a HUBZone, women-owned, and minority-owned company based here right in Northern Virginia, Manassas, Virginia. SYSUSA specializes in cybersecurity, governance, risk management, compliance, IT modernization, and strategic consulting.

In addition to owning my own small business, I am also an advocate for the small business community. I am one of the 58,000 entrepreneurs in Small Business Majority's Network. I am also an active member of the Prince William Chamber of Commerce. As a result of my involvement, I am aware of the daily struggles many other small business community members experience and I can speak to more than just about my own challenges. I can say with confidence that small businesses need more than just short-term benefits that are provided in the legislation. We need a long-term, sustainable strategy for growth.

The Tax Cuts and Jobs Act is providing a very small percentage of small businesses with short-term relief, not enough to deliver upon the promises made to the American public.

Although it was billed by President Donald Trump as an historic business tax cut that will really, really do good for business owners and enable small firms to hire more employees, unfortunately, it has failed to deliver upon its promise.

The first problem with the Tax Cuts and Jobs Act is complexity of the code, which requires extensive consultation with my accountants, and in some cases they, themselves, are trying to struggle with it.

The second problem is that it did nothing to address the pre-existing burdens in the Tax Code. Simplification was one of the promises made not delivered upon.

The third problem is that most small businesses did not save money it promised them to save. The Tax Cuts and Jobs Act is not designed to help very small businesses like mine. Whether a deduction is available for manufacturing businesses, I am in the service industry and do not have much to deduct.

While my experience with the Tax Cuts and Jobs Act is negative, it would be inaccurate to say that the new tax law has not helped any small business. I have spoken to many small businesses, including a distillery in my area that has benefitted from the reduction of the Federal Excise Tax. However, they may be heading towards crisis even though they waved money.

Unlike many of the large corporations that used their savings from the Tax Cuts and Jobs Act to buy back shares and increase the value of their business, most small businesses reinvested in growing their business. This by no means is a bad thing. The problem, however, is the temporary nature of some of the new deductions set to expire in the next year or so. Businesses that are investing their savings now may not have the extra cash in 2 to 3 years to continue investing and the projects might not get completed. This can result in a total loss of their investment.

In order to make the Tax Code work for Main Street small businesses, I have the following recommendations:

- Replace the Tax Cuts and Jobs Act's pass-through component with a provision allowing small businesses to deduct their first \$25,000 in business income.

- Raise revenue by closing inefficient corporate loopholes, including international tax policies, carried interest, accelerated depreciation.

- Introduce and enact the Protecting Taxpayers Act.

- Create small business opportunities through tax credits and incentives.

- Make the New Markets Tax Credit permanent.

- Pass healthcare tax equity for the self-employed so that freelancers can deduct their healthcare expenses from their FICA tax obligations.

- Create tax incentives for workforce development.

As a small business, if I hire people, I have to pay for their training and sometimes they have to go for a weeklong training as well, so I am basically heading into a double-edge sword. I have to give them a week off and then pay for the training as well. Having some incentives there that can offset one or the other will be greatly appreciated.

In conclusion, I am concerned about the long-term impact of the tax cut. It increases the deficit by \$1.9 trillion in order to dramatically lower the rates for large corporations and the very wealthy while offering very little benefit to Main Street small business owners. In addition, the cuts for pass-through entities are structured in a way that gives the majority of benefits to the largest 2.6 percent of pass-through business entities.

If policymakers are serious about wanting to level the playing field for small businesses and drive our economy from the bottom up, they need to implement policies that will help all entrepreneurs, rather than giving the tax breaks to those who need it least.

Thank you again for the opportunity to share my story. I look forward to your questions.

Chairwoman VELAZQUEZ. Thank you, Mr. Baig.

Mr. Conger, you are recognized now for 5 minutes.

STATEMENT OF JUSTIN CONGER

Mr. CONGER. Thank you, Chairwoman Velázquez, Ranking Member Chabot, and the members of the Committee. I am honored to have the opportunity to testify before the Committee today on how the Tax Cuts and Jobs Acts helps small businesses.

As Representative Chabot said, my name is Justin Conger. I am a second generation owner and president of Conger Construction Group, a commercial construction company located in Lebanon, Ohio. On behalf of Conger Construction Group, our employees, our clients, the 4,700 small businesses in Warren County, and 109,815 employees I represent as a member of the Warren County Chamber Alliance, thank you for the opportunity to submit this statement for the record before the Committee on Small Business' hearing.

Not only am I a second generation business owner and entrepreneur, I am the current Board Chair of the Workforce Investment Board of Butler, Clermont, and Warren Counties as we are the Area 12 utilization of WIOA Federal funding. I am also the Board Chair of The Associated Builders and Contractors (ABC) of Ohio, and a member of the JobsOhio Regional RDI Cincinnati Board. I present this to you to understand my participation in these organizations is not about personal recognition; it is to put into context and to attest to my qualifications to present this testimony. I bring a unique perspective on the positive impact local, state, and Federal tax policy has on small businesses.

The portion of the Tax Cuts and Jobs ACT that impacts Conger Construction most deeply is the provision that lowered the Federal corporate tax rate to 21 percent. You see, I am a small business owner and I am not on Wall Street, and we were founded as a C corporation. So the 21 percent tax change has dramatic impact on our business and how we function day in and day out. Under the Tax Cuts and Jobs Act, the much-needed savings provides more capital to reinvest in our business and in our employees.

From 2016 until 2018, I am proud to say our business has grown 110 percent. This growth would not be possible without the Tax Cuts and Jobs Act of 2017. See, our commercial construction company is located in southwest Ohio, and 100 percent of our revenue is generated from projects within a 100-mile radius of our office. In the southwest Ohio 16 county MSA, there are currently over \$2.5 billion in active construction projects. This uptick in commercial activity has increased dramatically in the past 18 to 20 months.

The economic expansion provides opportunities for Conger Construction Group and hundreds of our subcontractors, suppliers, vendors, and their employees. We only self-perform 10 to 15 percent of the work. We sub out 85 to 90 percent of our work to subcontractors. These subcontractors and their employees are feeling the benefits of a robust economy. In some ways, commercial construction has a waterfall effect. Conger Construction is experiencing large economic growth and prosperity, and so are thousands of other frontline workers employed by our partners and subcontractors. Continued economic expansion is providing increases in wages never before seen in my 18 years in this business. All of which is great for the American economy.

Conger Construction Group is a prime example of one of the many businesses across the country growing and expanding by uti-

lizing the benefits of the Tax Cuts and Jobs Act and reinvesting in our business. As I mentioned previously, we have grown 110 percent. As a business owner, entrepreneur, and community leader, I am proud of this growth over the past 3 years. I am even more proud we have grown our culture and employee base. Since 2016, we have increased our employee headcount from 28 full-time equivalents to 48 full-time equivalents and counting. We have increased our wages by over \$1.5 million, and in 2017 and 2018, we paid out over \$381,000 to those 30 employees that were nonowners in business.

As a business owner, I believe I have a responsibility not only to support my family but to support the families of our workers. With record low unemployment, finding talented workers to fill open jobs is harder than ever. From my experience on the Workforce Investment Board, there is a workforce shortage of epic proportion. If businesses want to continue to grow, they must take care of their employees, both personally and financially. Growing wages is a major part of that.

As I said, the 21 percent tax cut for a C corporation like ourselves, we are continuing to reinvest in our business, not only growing our employees and doubling, but we are reinvesting in our business currently as we are undergoing an expansion and renovation of a project.

Another aspect that has a tremendous impact on our business is the ability to accelerate depreciation on our investments of equipment. Not only office equipment, but large heavy equipment machinery we need to utilize day in and day out to complete our projects.

Thank you. I appreciate the time and opportunity.

Chairwoman VELAZQUEZ. Thank you, Mr. Conger. And thank you all for what you have shared with us.

I will begin by recognizing myself for 5 minutes.

Ms. Gravelle, we were told that passing this tax bill will benefit the economy overall. In the interest of time, can you answer this question with a yes or no answer?

Will the tax cuts create enough economic growth to pay for themselves?

Ms. GRAVELLE. No.

Chairwoman VELAZQUEZ. Have provisions like the pass-through deduction simplified the tax code for small firms?

Ms. GRAVELLE. No.

Chairwoman VELAZQUEZ. Is it not true, corporations used their tax savings to purchase nearly \$1 trillion in stock buybacks in 2018 alone?

Ms. GRAVELLE. Apparently.

Chairwoman VELAZQUEZ. Is this an accurate quote from your report? And I quote, "While evidence does not indicate significant repurchases of shares, either from tax cuts or repatriated revenues, relatively little was directed to paying work bonuses."

Ms. GRAVELLE. Yes.

Chairwoman VELAZQUEZ. Thank you.

Mr. Willey, we have heard that Section 199 is incredibly complex. Can you briefly walk us through the steps a small firm must go through before even determining if and how much they qualify for?

Mr. WILLEY. It is a very complex calculation. You have to determine whether you are qualified as a small business. There are some firms that are not qualified, primarily the service businesses. There is an income threshold that you have to—if you are below that you can deduct it even as a service business but it gets phased out relatively quickly. And there are limitations of W-2 wages which make it complex. So it is an extremely complex calculation, and sometimes you do not get the full benefit you think you would be getting.

Chairwoman VELÁZQUEZ. So it seems to me that Section 199A is picking winners and losers between small businesses that can utilize the deduction assuming you can navigate that web of complexity.

Mr. WILLEY. It is picking some winners and losers. And I do not have a big problem with excluding the public service or the professional services business. I mean, if I operate as a C corporation, I take most of my income out as a salary and I pay at 35 percent compared to somebody who would be able to take the 21 percent deduction using the same money as a pass-through, I do not have as much a problem there but it is complex. They did pick some winners in there, primarily the architects. I am not sure why but I am sure there was some political pressure along the way. So it did pick some winners and losers. But there are—

Chairwoman VELÁZQUEZ. Thank you.

Mr. WILLEY.—some abuses.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Baig, you just discussed how creating and decreasing complexity are two goals for small firms when it comes to tax policy. The corporate tax cut was made permanent while the individual and Section 199A deduction for small firms expires in 2025. How does this lack of permanency impact your business planning?

Mr. BAIG. First of all, you know, being a small business who is in the service industry, so the tax cut does not really help me much. You know, it is not designed for service industry people as Mr. Willey was referring to. It helps more on the—it has winners and losers, and I am one of the losers of the tax cut. It actually places a burden on me by kind of having to go through the navigation of it. And then the 21 percent tax cut or the income that I can get the pass-through, it is set to expire. So if I am benefitting from it today, and most of my benefits, any penny we make extra, we try to see if we can bring another person onboard that can help us basically grow the business. And it does not happen overnight. It takes a few years to develop that process. And if I do not have this in the next 3 years, the potential of the loss can be significant because anything that I will invest in somebody for the next 3 years will be lost all of a sudden.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Willey, a postcard filing form was touted as the game changer of tax reform. Are any of your clients filing their taxes on a postcard?

Mr. WILLEY. No.

Chairwoman VELÁZQUEZ. Mr. Baig, how much more time do you spend speaking and working with your accountant to ensure compliance?

Mr. BAIG. This year it took a few more extra days out of me during the tax season where it used to take me an hour or hour and a half to get things done.

Chairwoman VELÁZQUEZ. Thank you.

My time has expired and I now recognize the Ranking Member.

Mr. CHABOT. Thank you, Madam Chair.

Mr. CONGER, let me begin with you if I can. I think you mentioned that the most important part of the Tax Cuts and Jobs Act that affected you was reducing the rate from 35 down to 21 percent. And if you look at some of the debates that have been televised recently at the presidential level, to listen to some of the folks talking about the tax cuts bill, you would think that what you did and people like you that own small businesses across the country and large ones, we would think that they just bought another yacht with that money or they found some more ingenious way to exploit their employees or perhaps harm the environment or some other nefarious use of that money. What did you and your company do with the additional money that you were able to keep rather than send it up here to Washington?

Mr. CONGER. That is correct. One of the three or four major things that we have done with the extra money and the tax savings we have is reinvest it in our business. As a small business owner an entrepreneur, you have to constantly be competing against other businesses and most of that competition comes through the form of employment and employees. One of my mentors told me years ago hire smart people and get out of their way. And so we have been able to increase our employee count, our head count. As I mentioned, we have doubled our employment in the last 2-1/2 years, adding over \$1.5 million in jobs in that payroll. And again, we are a small business. There are only 48 employees. Those are real numbers and big numbers to an economy like Warren County, Ohio, and Lebanon, Ohio. We have also increased payout of bonuses. So again, instead of, when you have a workforce shortage, you have to take care of your employees. We are providing better healthcare benefits. We are providing more PTO. We are providing larger bonuses based on their performance year in and year out. Those things are helping us to continue to attract new employees, to attract smart people to come to work for us that will then enable us to grow. And so it is a major part of we are trying to, you know, we have a fiduciary responsibility and an ethical responsibility to our employees to provide the best opportunities for them to grow. You know, they are middle class workers. Our least paid employee is a laborer who makes \$18.50 an hour. He is an unskilled worker that we are trying to put through training and we continue to use training to raise our employees up. But we are paying good wages, better than good wages to unskilled workers and we are still trying to continually invest in them and grow them.

One of the other things we have done is we are expanding our office. Due to the increase of employees and head counts, we need more space. And so we are using that money to expand our offices, provide a better work environment that is more collaborative, that helps us execute our mission and deliver a good service to our clients.

Mr. CHABOT. So is it accurate to say that you are able to pay your employees more, so they receive more income from their job, and on the individual tax cuts, because about 85 percent of the people across the country got their taxes reduced. In our area, for the average family of four it was about \$2,400. So they are getting an additional, say, hike in their pay or more money going in to their retirement through the company, et cetera, plus their individual taxes for the most part have been reduced as well, so they get two bangs for the buck so to speak. Would that be accurate?

Mr. CONGER. That is accurate.

Mr. CHABOT. Okay. Thank you.

Mr. Willey, let me turn to you at this point. I definitely agree with some of your sentiment that you mentioned. I would very much like to have seen the tax bill simplified more. And with folks on the individual level, there were a lot of people that did get it simplified to the extent that many more no longer had to itemize. They were able to take the standard deduction. That increase was pretty much dramatic. And when they talk about the postcard, and this is kind of an example of the postcard that we were talking about there, that was never intended to be for a small business and the complexity of a business to be able to file it on this. We were basically talking about individuals; is that correct?

Mr. WILLEY. Yes, that is correct.

Mr. CHABOT. Okay. And I also agree with your point about the permanency. And I also share your concern about making these permanent. I would have liked to have seen both at the business end and the individual end having it a permanent tax relief. And the Bush tax cuts, back at that time we had a similar situation where they essentially ended after 10 years, and the argument was made, well, Congress will renew those tax cuts, and we did. So the tax cuts ultimately remained permanent. And I would just encourage my colleagues on both sides of the aisle, when that day comes and we ought to make those permanent, and I am committed to doing that for individuals as well as businesses. But I think both of those points that you raised are very good ones. So thank you.

My time is expired, I yield back.

Chairwoman VELAZQUEZ. The gentleman's time has expired.

And now we recognize the gentleman from Maine, Mr. Golden, Chairman of the Subcommittee on Contracting and Infrastructure.

Mr. GOLDEN. Thank you, Madam Chair.

I wanted to pick up with you, Mr. Willey. I have spent 4 years prior to this on the Maine State Legislature and I, coming from a working, middle-class kind of state have always I think put a bigger focus on middle class tax cuts and how tax policies impact them.

You mentioned something I think about having to make some changes in Rhode Island relative to state and local taxes, the SALT changes in this tax law, and also talked a little bit about some of the difficulties with figuring out how S-corporations operate with the pass-throughs. I just wanted to ask you if you had any specifics you wanted to share with us quickly about what kind of fixes, I mean, what did Rhode Island do that you would like to see at the Federal level?

Mr. WILLEY. In my package, I gave you a copy of the bill that I drafted for that.

Mr. GOLDEN. Perfect.

Mr. WILLEY. But basically, a C corporation can deduct state income taxes at the entity level.

Mr. GOLDEN. Correct.

Mr. WILLEY. The tax law says that if the tax is paid at the entity level, it is an allowable deduction. What in Rhode Island we did was we said, okay, let the state assess at the entity level and pass through a tax credit for the individuals. I feel comfortable that is going to be an allowed deduction for Federal tax purposes.

Mr. GOLDEN. I was going to ask if you are running into any troubles with implementation.

Mr. WILLEY. Well, Connecticut has passed a similar law ahead of us. They are effective for 2018. Ours is effective for 2019. The IRS has attacked the restricting of real estate taxes as a charitable deduction and I tend to agree with that. That is kind of a sham. I think this makes sense and it is fair and it gives some parity. They have not attacked that yet. They know it is out there but we are going to see if Connecticut gets attacked before ours are implemented. Again, I think this should be fixed at the Federal level, not necessarily the state level.

Mr. GOLDEN. Yep. Thank you.

I think, you know, it sounds like, we all know that we have kind of, you know, regional economies as well, and I am glad to hear that the construction economy is booming in your area. I think sadly that is not the case everywhere you go in the country, and I think in Maine, obviously, we would like to see it doing far better than it is. So some of the benefits of this may not have made it all the way up.

I am hearing from some workers in the trades, people, we have got general contractors, of course. We have got, you know, people, carpenters and others who are complaining to me that they are having a hard time figuring out, I think, how to get the most out of this tax law, concerns about their inability to write off certain deductions that were really critical to them as small business owners and their fear that they are having a hard time figuring this out.

Do any of you want to field this question in regards to whether or not you think it is just the complexity of the law or is it some kind of change that is making it so that workers or small business owners in the trades are not going to be able to write off some of their businesses expenses that they used to?

Mr. WILLEY. I will take a stab at that. I think there are some limitations in primarily the entertainment area that is affecting them, and small businesses use entertainment more than big businesses. I think the complexity is going to require more small businesses to use professional people. That is good for me but not necessarily good for the client.

Mr. GOLDEN. Yeah. That is helpful. Thank you.

Something I was interested in in this, Ms. Gravelle of, you know, when you have got a lot of very small businesses, family-owned ones, sometimes you have some years where you suffer some losses,

do you think it is impacting a lot of small businesses negatively that they can no longer carry back net operating losses?

Ms. GRAVELLE. Well, I do not know. I have not been able to find any data on this because it is so soon but I would certainly think, and in general, for all business, that the carryback of net operating losses generally is viewed as a good policy. It tends to even out the taxes over time. So it is really better to have carrybacks that can retain their full value. And it is helpful for businesses to go through ups and downs.

Mr. GOLDEN. Thank you.

I am pretty close to being out of time so I am just going to go ahead and wrap it up right there.

Thank you very much, Madam Chair.

Chairwoman VELAZQUEZ. The gentleman yields back. Thank you.

The gentleman from Minnesota, Mr. Hagedorn, is recognized for 5 minutes.

Mr. HAGEDORN. Thank you, Madam Chair.

I appreciate this hearing. Actually, I think this is a great hearing to talk about some of the progress that is being made in the country, how strong the economy is, and how strong many of our small businesses are across the country.

First of all, I would ask unanimous consent or whatever to add to the record four articles that I have here talking about some of the things that have happened in the state of Minnesota with 3M, Hormel, and others, larger companies, but how the tax cuts have been helpful to some of our employees.

Chairwoman VELAZQUEZ. Without objection.

Mr. HAGEDORN. Thank you, Madam Chair. And my statement.

And just last week we had a small business owner from Mankato. Jeff Royce was here. He was talking a little bit about the Minimum Wage Bill that we had before the Congress and he said, you know, ironic, because of what has been going on with the growth in the economy and the demand for the windows that they produce, they are fine windows that they produce right there in southern Minnesota and go all across the country, sometimes across the world. He said, you know, all their contractors and then they are paying more than \$15 an hour, such demand. And I hear this everywhere. First of all, I have never met a small business owner in southern Minnesota, and we meet scores and scores of them all the time and not one of them has been demanding that we repeal these tax cuts. I have not heard anybody say that. They might want them tweaked, fixed. No doubt about it there are some things about it that we can improve. I have not heard anybody say let's repeal them and help our small business. That is just something as an aside.

But whether it is Lindsay Windows in Mankato, or Alumacraft in St. Peter where they make fine boats, and we go to Construction 99 North in Rochester, Wieser Construction, La Crescent, all these places, it is the same thing. Since the election in 2016, a little bit of a different thought about what is going on in the economy, and after these tax cuts people feel like things are booming. And the proof is, kind of to me, in the pudding. Their biggest complaint is they cannot find workers to help them expand more and do even

more business. And the reason the economy is not even stronger is simply because of that. The demand is out there. They cannot fill it. And so what they are looking for from government, I think good government policies in all these areas, like regulations, health care. Obviously, energy. They want vocational training. And when it comes to the tax cuts, I agree. We can do better. We should do more for individuals. We should have individual tax reform. Make it simpler, fairer, flatter, where people can save, invest, hold, spend their own money the way they see fit, not the way the Federal Government, the bureaucrats, the politicians, and others tell them to. So going forward, I would work in bipartisan fashion to make those things happen.

But the need for skilled workers is important. I guess I would just open it up to any on the panel. Other than, I mean, first of all, does anyone here really want the tax cuts repealed? Is there anyone here that would say we should repeal them for small business? Okay. But am I wrong? I mean, is the demand out there that you could probably fill even more projects if you had 20-25 more workers?

I will ask you, Mr. Conger.

Mr. CONGER. Most definitely. We experience that day in and day out. We are continuing to hire and invest a lot of time and resources and do hiring, not only skilled workers, unskilled workers, and management staff as we continue to keep up with the demand of the construction marketplace. And as a commercial construction company, we are not employed and there is not jobs if there are not businesses out there expanding. If there are not manufactures growing, if there are not healthcare industries growing. So the growth of the economy and the growth in the various industries we serve is a direct impact to our business. And then again, the water-fall effect down to our subcontractors, suppliers, and frontline workers. So the economy is very well in a multitude of market sectors in southwest Ohio. And we see that day in and day out.

Mr. HAGEDORN. And a lot of that has to do with the confidence that people have, either in their own livelihoods, the money that they make. They can go out and make purchases. Like I said, Alumacraft, where they make fine bills, you know, people, that is an investment they want to make. It is something aside, not something they need to get through life every day but, you know, want to go out and enjoy our beautiful lakes in Minnesota. Many of them in Congressman Stauber's District and ours. I think it just shows that the economy is strong. People are excited about the way things are going. I think we want to keep moving it in the right direction. And I, again, pledge my bipartisan support to do whatever we can to improve this act and to do what we can for our businesses to make sure that they can grow and thrive into the future.

Thanks very much, I yield back.

Chairwoman VELAZQUEZ. The gentleman yields back.

And now we recognize the gentlelady from California, Chairman of the Subcommittee on Investigations, Oversight, and Regulation, Ms. Chu.

Ms. CHU. Mr. Baig, as a member of the Ways and Means Committee where the Tax Cuts and Jobs Act was being considered, I raised concerns early on about the pass-through provisions in the

Republican bill creating more unnecessary complexity for small businesses and allowing millionaires who can afford armies of accounts and lawyers to game the system. In fact, when we were considering the law, tax attorneys publicly stated that they were thrilled about the changes, one attorney at the time even told a news outlet, this is an entirely new concept, and from a tax lawyer's perspective, it is like a new paint box. We have a new tool to play with.

Well, we know that many small businesses do not have the ability to afford high-powered tax layers to play with the new tools that the Republican tax law provided.

So Mr. Baig, your small business was forced to spend more on accounting services due to the complexities of the law. Major corporations can devote resources to identifying tax loopholes. Do small businesses have the same resources, and are you an isolated case or have you heard from other small businesses that were forced to spend more on tax advice?

Mr. BAIG. I am not actually just talking about myself but all the small businesses that I have talked to in my community and across. Everybody is feeling that pain. I have, from my perspective, I used to have, at the end of the year I send my accountant a report and that was the end of it and they will process it. Now I have an internal operations person who is actually managing this on a day-to-day basis. And not only that, I still need to do that accountant stuff on a monthly basis to make sure that I am complying. Because as a CEO, I do not want to see the auditor knocking at my door. That is the last thing a small business wants to see is something take more out of you because as a small business owner, we wear too many hats. And adding one more hat can sometimes be the end of your small business. So basically, you are already stretched to a level beyond, you know, you are to the breaking point. And adding more burden to the small business, you know, you look at small businesses. A majority of the small businesses are pass-throughs. They are not C corporations. So if you are looking at the majority of them, they are not benefitting from it. And the risk of the expiring provision in the tax cut is significant because as of now we are talking, yeah, there is a tax break, we are getting some money out of. Okay, let me take that money and invest it somewhere else. But at the same time, not if the project that we are trying to invest, if it does not mature in the next 2 to 3 years, all this 3 years of saving that I save for my tax cut that I invested in with additional revenue into that particular opportunity is all gone.

This is the risk that we are facing right now. There is a complexity to understanding and uncertainty what is going to happen down the road. And we know it very well. Businesses with uncertainty do not do very well. The risk is significantly higher. If we have some sort of a certainty, permanency of these tax cuts that are in there, that will help a lot of small businesses to plan and also then we know what to play for from the accounting perspective as well. Right now I do not know what I need to plan for next year, whether the provisions are going to expire, what I need to plan for the year after.

Ms. CHU. Thank you. Thank you, Mr. Baig.

Ms. Gravelle, as the bill was going through, I believe that the needs of women small business owners were not considered at all. We know that the vast majority of women-owned businesses, in fact, 88 percent of them, have revenues of \$100,000 or less. However, more than 90 percent of the benefits of this tax bill, particularly the pass-through deduction that was intended to help small businesses, actually goes to those businesses with revenues of more than \$100,000.

Ms. Gravelle, in your research, did you find that most of the benefits of the pass-through deduction go to businesses making more than, in fact, far more than \$100,000 in revenues? And why is this the case?

Ms. GRAVELLE. Well, most small business owners do fall into the higher income brackets. So they tended to get larger tax cuts. Despite the phase out of the pass-through, they tended to get the larger concentrations. Studies by the Joint Tax Committee, studies by the Treasury Department have shown both the pass-through and the rate reductions were very highly concentrated at high income levels. The people that got the least from the tax cut were the lower 20 percent, lower 40 percent, lower half of the income distribution and that is certainly true of the pass-through deduction. It is true of the rate cuts, and it is true of the entire tax since most corporate rate cuts eventually benefit high income people.

Ms. CHU. And so for these women-owned businesses that have \$100,000 or less in revenue?

Ms. GRAVELLE. They probably got very little. I do not know individually, but they probably got very little, if anything.

Ms. CHU. Okay. Thank you.

Chairwoman VELAZQUEZ. The gentlelady yields back?

Ms. CHU. I yield back. Yeah.

Chairwoman VELAZQUEZ. We recognize the gentleman from Minnesota, Ranking Member of the Subcommittee on Contracting and Infrastructure, Mr. Stauber.

Mr. STAUBER. Thank you, Madam Chair. And I appreciate you holding this hearing with the Ranking Member, and to the witnesses, thanks for your testimony.

I just want to talk about some success stories in Minnesota's 8th Congressional District, which is a blue-collar district in Northeast Minnesota.

There is a brewery in Two Harbors which shared with me that they were able to save thousands of dollars because the Federal tax on a barrel of beer was cut in half, close to \$60,000.

And a knife sharpening company in Ely, Minnesota, told me they were able to invest in new sharpening equipment thanks in part to the Tax Cut and Jobs Act which doubled section 179 that allows businesses to expense equipment.

A manufacturing facility in International Falls, Minnesota, GreenTech Manufacturing, a leading outdoor furnace manufacturer, has added seven new positions at their small business thanks to the savings from the Tax Cuts and Jobs Act.

There was a witness that I brought here to this Committee earlier this year. He owns a rental company in Duluth, Minnesota, and he is also a constituent who testified in front of this Committee

just a few months ago. He told the Committee that he saved \$7,200 last year with a 20 percent pass-through deduction.

These are small businesses in our district that benefitted from the Tax Cuts and Jobs Act. I think everybody understands that it was an important piece of legislation that helped many. Are there things that we now know can we do better at? Of course we can, and I look forward on this Committee to work towards that solution that continues to move our small businesses forward.

Mr. Conger, I do have some questions. Would you support making the individual rates permanent?

Mr. CONGER. Yes.

Mr. STAUBER. And do you think the economy is heading in the right direction?

Mr. CONGER. Most definitely.

Mr. STAUBER. Mr. Willey, would you support making the individual tax provisions permanent?

Mr. WILLEY. Yes.

Mr. STAUBER. I would just like to ask any of the witnesses, Mr. Conger, with you first, are there any improvements that Congress can make to build on the Tax Cuts and Jobs Act?

Mr. CONGER. Not knowing the Tax Cuts and Jobs Act inside and out, one of the provisions that we had utilized, we do both public and private construction, is there is a 179D tax credit deduction program for construction companies that create or work on construction projects that are publicly funded that make energy efficiency upgrades. That is my understanding, that 179D deduction is still kind of in limbo but there are some good savings of construction companies, suppliers, vendors that work in that realm that are making energy efficiency upgrades to tax our utilities less. There is a good savings there.

Mr. STAUBER. Okay. For my remaining minute and a half and the three other witnesses, Mr. Braig, quickly, what is something that you would like to see added to the Tax Cut and Jobs Act that can even make it better?

Mr. BAIG. I think just like the manufacturing sector and other sectors you mentioned, they are getting tax cuts and hopefully they will be permanent and they can continue. Something for the professional industry because our expenses are laptops and phones. So if there is something for the professional industry.

Mr. STAUBER. Mr. Willey?

Mr. WILLEY. I have a bunch of things. One is making the tax cuts permanent. The other is looking at the 199A deduction. The 20 percent deduction really is not parity with the C corporations. It should be closer to 27-28 percent. The research and development credit, one of the things that bothers me there is we are playing around with that every year and there seems to be no consideration that research takes time and planning. And you do not know whether it is going to be effective the way it was a year from now. This one is still in flux. So keep that consistent.

Mr. STAUBER. Thank you.

Ms. Gravelle, you have got 20 seconds.

Ms. GRAVELLE. Well, I do not know that I can recommend anything but there are a lot of options you could consider. But I think one thing we should be looking forward to is this proposal to amor-

tize R&D down the road. I think that is something that somebody needs to think about.

Mr. STAUBER. Great. Thank you very much.

I want to thank each and every one of the witnesses for your testimony today, and we appreciate your time.

Madam Chair, I yield back.

Chairwoman VELAZQUEZ. The gentleman yields back. And we recognize the gentleman from Pennsylvania, Mr. Evans, Vice Chair of the committee for 5 minutes.

Mr. EVANS. Thank you, Madam Chair.

I want to thank you and your leadership as Chairperson of this Committee because I think it has been really fantastic at this time.

I, like a couple of other members on your Committee, are members of the Ways and Means Committee. And I believe that the reason some of these complication issues have come up is because any time you do a tax package as was done in 51 days and no hearings, I mean, clearly mistakes are going to be made. So we need to state that. Fifty-one days, no hearings. And I have only been here for 2 years and 5 months, and I am happy to be on this Committee because it works together with the Ways and Means.

So I want to start with Ms. Gravelle. How does the absence of clear guidance make the tax compliance difficult for small firms?

Ms. GRAVELLE. Well, I think we have seen it with the pass-through deduction. They finally got the regulations out but you had to deal with your taxes before those. For example, a simple issue like combining businesses under one ownership. That was an issue up in the air. When you became a service corporation, if your skill or reputation was supposed to determine that. So I think putting something into effect very quickly and then a lag in regulations and still uncertainties in the regulations I think is problematic when you do something quickly.

We also have a lot of technical corrections that need to be considered like accidentally causing improvements to be amortized over 39 years instead of expensed and things like that.

Mr. EVANS. So in other words, 51 days, no hearings, you are going to make mistakes like that?

Ms. GRAVELLE. I do not think it is just hearings. I think letting the professionals out in the community read what you are planning to, and hearing from them is a very important part of the process. But you know.

Mr. EVANS. But that does not happen if you do not go through a deliberate process.

Ms. GRAVELLE. No, you do not have time.

Mr. EVANS. Right.

Ms. GRAVELLE. A few things they caught but you do not have time for a lot of this.

Mr. EVANS. Mr. Willey, will you please share the survey results you find more compelling that the Committee should take under consideration? There is a survey, my understanding. In your statement you referred to statement in which only one in three small business owners say the Tax Cuts and Jobs Act brought a direct benefit for their business. Most small businesses owners are still unsure.

Mr. WILLEY. Yeah. The NSBA did do a survey on that. And I listed that in my written testimony. I think one of the complexions is that I am not sure they really know what the results of the tax cut are, so I think they are making some gut decisions. I think at the time the survey was given, I am not sure they got the results from their accountants yet. But there are concerns they are not getting the benefit that they thought they were going to get.

Mr. EVANS. Real quickly, well, can you walk the Committee through the difficulty you faced when filing taxes after the passage of your bill? And the follow up would be, how would you simplify administration and compliance to help your business?

Mr. WILLEY. It was a bill that was put together very quickly. Getting the regulations under control was a problem. I would tell you that in some cases, especially in the international area, we got regulations and procedures April 13th from the IRS. And sometimes we have already paid the tax on that. So there was a lot of confusion on what actually was happening. There was confusion on the pass-through and the 199A. It was a difficult year to pull this all together because it was a substantial change.

Mr. EVANS. Okay. Real quick. I want to go to Mr. Braig is your name?

Mr. BAIG. Braig.

Mr. EVANS. Braig. Sorry about that.

What actions could this Committee take to level the playing field for taxpayers who own small businesses?

Mr. BAIG. I think looking at the small business, and I will not go into the SBA stuff. Looking at the small business NAICS codes I think is also something we need to take a look at as what qualifies really a small business? In every small business, as per SBA, makes \$50,000 a year. And if you look at the U.S. Census information from the Small Business Annual Survey of Entrepreneurs of 2014 and every small business earns less than \$400,000 annually.

So this is what the small business is, really. They are not multi-million dollar businesses. And a lot of that goes back into the wage and stuff like that. Having pass-through ability, that is great. But when you start hiring people and paying employees you get penalized. So how do you make some of these incentives permanent? When you are hiring people, you are paying people, you can give incentives for those as well rather than just pass-through to your personal tax cuts.

Mr. EVANS. I yield back the balance of my time and I thank you, Madam Chair.

Chairwoman VELÁZQUEZ. The gentleman yields back.

And now we recognize the gentleman from Florida, Mr. Spano, for 5 minutes.

Mr. SPANO. Thank you so much, Madam Chair. And thank you, witnesses, for being here and offering your testimony.

I am a new member of Congress. I was not here when the Tax Cuts and Jobs Act was passed, but I do have a unique perspective on the topic. I have been a small business owner for about a decade and a half. The impacts that I have observed in my own small business and for other small businesses in the community that I represent, I have been a board member on the Chambers there. I am involved in two or three chambers over the course of the last couple

of decades. And I have personally seen the benefit to our community. It has been instrumental in the economic success of our community. You know, Main Street of our town is just booming and whatever you want to attribute it to, I think at least in part the Tax Cuts and Jobs Act have had a positive impact. Our economy is thriving.

And so while I was sitting here waiting, I have my accountant that has done our personal taxes for about a decade. And I said, hey, just give me kind of your anecdotal impression. You know, is your assessment, is your understanding of what is happening consistent with what I am feeling? And his response to me was, all capital letters with four exclamation points, BENEFIT!!!! I asked him, does the Tax Cuts and Jobs Act benefit or has it been bad for small business? BENEFIT!!!! Four exclamation points.

Two senior helper franchises saved \$3,200 and \$4,400 in taxes. One local restaurant saved \$2,800 in taxes on just the 20 percent pass-through deduction only. It does not even include savings from tax ratings going down. So his impression was the same as mine. The small business that I had was I owned my own law practice. We did a lot of estate work over the last several years. So one of the major benefits that I see in the tax bill is an increase in the estate tax exemption.

And Mr. Willey, you said, and I quote, "The estate tax often is very much a small business issue. We applaud the increase in the estate tax exemption but we are concerned that the provision expires in 2025."

My experience is that many small business owners, one of the issues that their families have when they pass away is they do not have the liquid assets to keep the business running because of the estate tax responsibility. And so, in my person opinion, and I would like to hear yours as well, the increase in that estate tax exclusion, will it allow small businesses and their families if they want to generationally continue practice in this area or work in this area of their business, will this increase in estate tax exclusion help them do that?

Mr. WILLEY. I view the estate tax as a small business issue really. I have less concern about people who clip coupons but the small business, if they get subject to an estate tax it takes money out of their cash flow, their ability to reinvest. It is a small business issue, and I think the increase will help most small businesses avoid it.

Mr. SPANO. Yeah. So in my experience, especially with family farms, right, the family farm situation, the major asset of your business is your land. And if you have got to sell your land that you are farming on to pay an estate tax, you are on longer in business. So this is a very important issue to me.

One of the things I think we have broad consensus on here today that we have kind of all agreed on it seems to me, tax cuts should be made permanent, and it needs to be simpler. Let's get it done. Let's make it happen. There is no reason why we cannot see those two things happen. I think we are all in agreement that those two things should happen and that they would benefit small businesses.

With that, I yield back. Thank you.

Chairwoman VELÁZQUEZ. The gentleman yields back. And now we recognize the gentlelady from Ohio, the Chairwoman of the Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship, Ms. Finkenaue.

Ms. FINKENAUER. Thank you, Madam Chair. And thank you so much for our witnesses here today and taking the time out of your schedules to be here. It means a lot.

You know, when I came to Congress, I knew that the new tax law did not deliver the way that it should have for hardworking Iowans. But honestly, I did not realize the amount of unintended consequences it created until I started hearing from people in industries that have suffered and have actually taken the time to come here and talk about some of those issues. An error in the tax bill that makes it harder for Iowa's local restaurants and Main Street stores to invest in renovations and improvements to their storefronts just to name one of them, the tax bill no longer allowed our workers to deduct the cost of basic things associated with their jobs, like uniforms or travel. And then some small businesses, specifically pass-through entities, may qualify for a new 20 percent deduction, but I have learned that the rules are so complicated for some that businesses are not able to take advantage of it. On top of that, this deduction expires in 2025, giving business owners absolutely no certainty.

Iowa's rural electrical cooperatives are among those hurt by the unintended consequences and have come to visit. They stay tax exempt but they have to maintain an 85/15 revenue split, meaning 85 percent of their revenue has to come from customers. The new tax law has made that hard though by counting Federal grants and awards, even Federal aid from FEMA after a disaster as noncustomer income and then throwing off that revenue split.

I am cosponsor of several bills to fix these types of errors, but issues like these are exactly why we need a bipartisan approach when it comes to tax reform. This bill was put together essentially behind closed doors, and quite frankly, it shows.

Mr. Braig, what kind of impact do errors like this have on small businesses? In considering changes to tax law, what should Congress do differently in the future to make sure that both parties and stakeholders are heard?

Mr. BAIG. I think we need to get the small businesses a little bit more involved in this because making the decisions based on a limited understanding of things sometimes and a quick decision process, it hurts the small businesses. The example I would use, if somebody who is living at the penthouse, he sees sunlight all the time. But somebody who is in the lobby does not see the sun. So the person in the penthouse would make the policies to limit the sun, while the person in the lobby does not see any at all. So they are contradicting each other. So if we can have some kind of involvement on the small business side where small businesses can be participating in the whole process, rather than making it in 51 days, if it takes 5 months, that is perfectly fine but with a better solution.

Ms. FINKENAUER. Thank you.

You know, I often tell my constituents that a day in my life in Congress actually looks quite a bit different than what you see on

TV at night. And on this Committee, I mean, we probably work across the aisle to improve the lives of entrepreneurs and workers across the country. You know, just last week, the Small Business Committee passed five bills that helped veteran entrepreneurs start and grow their small businesses. These bills are an example of exactly what we should be doing here in Washington and how we should be legislating. And I cannot say that about the Tax Cuts and Jobs Act. The law was not negotiated in a bipartisan manner. It was put together far too quickly. It disproportionately benefits those in the top 1 percent and it will add, again, trillions to our national debt here.

Ms. Gravelle, can you explain to us what the average tax cut would look like for the middle 20 percent of Americans versus the top 1 percent income group by the year 2025?

Ms. GRAVELLE. Well, I am not sure I have those numbers right in front of me but it is a very, you know, a very small fraction of the taxes. For most people who were not itemizing, they actually gained very little because even though there is a bigger standard deduction, it was offset by the loss of the personal exemption. So all of that pretty much washes out. So you are talking about a very small tax cut for those people.

Ms. FINKENAUER. Well, thank you.

And thank you guys again for being here and having this discussion. You know, we need to make sure that we are putting dollars into the pockets of hardworking Iowans and folks across the country, but these types of things should be done with, again, our middle class in mind, and what we have seen here, I was disappointed with the last few years and hope that we can have better discussions moving forward. And again, thank you so much for your time and your expertise being here.

And with that, I yield back, Madam Chair.

Chairwoman VELAZQUEZ. The gentlelady yields back.

And now we recognize the gentleman from Pennsylvania, Dr. Joyce, Ranking Member of the Subcommittee on Rural Development, Agriculture, Entrepreneurship, and Trade.

Mr. JOYCE. Thank you, Madam Chair.

Before I ask my questions, I would like to highlight what the impact of the Tax Cuts and Jobs Act had on my district in Pennsylvania. At the beginning of the year, we polled 4,500 of my constituents, and 85 percent of them reported that they support making the tax cuts permanent, exactly what you testified to us today. This statistic is particularly impactful when you understand that 99.6 percent of businesses in Pennsylvania are small businesses.

While some of my constituents do work for larger corporations, the vast majority of them are self-employed or employed by small businesses. One constituent who has benefitted from the tax cuts is Guy Berkebile, who is the owner of Guy Chemical Company in Somerset, Pennsylvania, in my district. Guy Chemical is an S corporation, which primarily manufactures adhesives. These products are made here in the United States but shipped all over the world and shipped into my district as well.

Before the Tax Cuts and Jobs Act, nearly 50 percent of Mr. Berkebile's profits were lost to the government in the form of taxes. Since the tax cuts, Guy Chemical has invested in new equipment,

built a new lab that is five times larger than the previous one, purchased new mixing equipment, and new production equipment. Additionally, they added 29 new jobs, increased salaries, and gave bigger bonuses, all of which Mr. Berkebille points to as the result of these tax cuts.

With that said, the bill was not perfect. I wholeheartedly agree that the tax cuts for small businesses and individuals need to be made permanent. Additionally, Congress has intended to provide retailers with the ability to fully and immediately expense interior remodels to their buildings. But an inadvertent drafting error termed “the retail glitch” has resulted in grocers and restaurant operators, amongst other small business owners, having to expense improvements over 39 years instead of the 15-year depreciation period they qualified before the implementation of the tax cuts.

Despite the issues that I have highlighted to you, it is overwhelming apparent based on conversations with my constituents, that the reinvestments that I have seen in my own community, these tax cuts were overall great for small business. There is a bipartisan consensus, which you have heard today, that many of the issues mentioned need to be addressed and legislation has to be introduced to do so.

My colleague, Mr. Brady, has introduced H.R. 22 to make the 2017 tax cuts permanent for middle class and small business owners like yourselves. Mr. Jason Smith has introduced the Main Street Tax Certainty Act to make the tax deduction for qualified business income permanent. Mr. Panetta has introduced H.R. 1869, the Restoring Investment and Improvement Acts to fix the retail glitch that I just talked about. Yet, we are almost 7 months into this Congress and the majority has not allowed the House to consider any of these legislative fixes. I urge my colleagues across the aisle to work with us to fix these issues as soon as possible.

Now I would like to ask a few questions.

Mr. Conger, would making the 2017 tax cuts permanent for the middle class and small businesses positively affect your business?

Mr. CONGER. Yes.

Mr. JOYCE. Would it allow for you to make plans to expand your business well past 2025?

Mr. CONGER. Most definitely. It would help us to plan out and further grow well into the future.

Mr. JOYCE. Conversely, repealing the tax cuts, how would that affect your business?

Mr. CONGER. It would have a negative impact of epic proportion, I believe, because it would affect so many other small businesses that would then stop to invest in their businesses, grow their facilities, buy additional equipment, and then in turn, need additional space, which is what the construction services provide.

Mr. JOYCE. In your expert testimony, which was brilliantly given to us today, you outlined the importance of growth and development in your own company by these tax cuts. Will these tax cuts, if made permanent, allow that to continue for you?

Mr. CONGER. Yes. I look forward to doing that. As you grow a business, as an entrepreneur, you are always planning and looking for and trying to look through a crystal ball out into the future, and through strategic planning, if we have certainty around the tax

codes, we can better plan and better look forward into the future and make good business decisions.

Mr. JOYCE. Thank all of you for your testimony today and I thank you, Madam Chair.

Chairwoman VELAZQUEZ. The gentleman yields back. And now we recognize the gentleman from Oklahoma, Mr. HERN, Ranking Member of the Subcommittee on Economic Growth, Tax, and Capital Access for 5 minutes.

Mr. HERN. Thank you, Madam Chairwoman.

This is a topic I wish we had about 3 hours to talk on. I could take all 3 hours.

I have been a small businessman for over 34 years across multiple sectors: banking, technology companies, real estate development, McDonald's restaurants. I also spent 5-1/2 years on McDonald's tax policy team where we had AICPA folks on there. First, under Senator Levin and then Kemp and then Brady—or Ryan, then Brady. So I have seen all this. And so the talk of bipartisanship, it has never been there. In fact, I want to ask a question in a minute. But as we get to talking about what is happening in our districts, it did make a difference. We heard about all the one-time benefits of giving bonuses, so people were able to do that. They attributed that directly to the Tax Code. And to say that it did not attribute to the Tax Code would be to call those individual CEOs liars. And we are not going to do that. They know what they could afford and what they could not.

It does have a different impact. Mr. Willey, you know, you are a witness for the democrats. I am going to ask you a question in just a second, but I really appreciate your testimony because you have covered the entire gamut of why we needed it for C corporations and why we also need to make it more simple and permanent for small businesses. I think you captured it very accurately.

Madam Chairwoman, I have information from NFIB I would love the support, ask unanimous consent to put into the record. They represent over 300,000 small businesses in America. I think they do a great job of referencing and showing the mood of the small businesses in America. And I would love to put this into the record.

Chairwoman VELAZQUEZ. Without objection, so ordered.

Mr. HERN. Thank you.

I would like to ask each one of you, and just a simple yes, because I have got like a ton of questions for you, has there ever been a simple Tax Code, Ms. Gravelle?

Ms. GRAVELLE. Not in my recollection.

Mr. HERN. Okay. Mr. Willey?

Mr. WILLEY. I have not seen one, but every time they say it my business goes up.

Mr. HERN. Mr. Baig?

Mr. BAIG. Yet to see one.

Mr. HERN. Okay. Mr. Conger?

Mr. CONGER. No.

Mr. HERN. So, we are all arguing about whether this code is simple or not, but there has never been one. So we have nothing to reference for, it is just it is different from the last one. The last time we had a comprehensive tax reform was in 1986. We have had all kinds of iterations of messing with it along the way. But, you

know, one thing that we could ask ourselves, you know, regulation, we just had a field hearing in Tulsa this past week, or Monday, on regulation. Regulation is a longer word for tax. And you as small business people know this. You see what those imposed on you.

So the one thing we do have that we know, we know facts. And small business people, business people in general, love facts. We have the lowest unemployment in many, many months. We have the highest employment possibly ever in the history of our company. We have growing wage rates. And so those are, you know, we can say those are happening by happenstance but there is something that is attributing those. So people are going to work. We have 7.6 million jobs unfilled and 6 million people looking for jobs. We need to do a lot of work in training these folks to get into those jobs.

Mr. Willey, I will come back to you. You were not originally on my question list but I want to ask you this. Recognizing that we had to do something on a global scale because we were one of the highest industrialized Nations from a tax rate standpoint, and you alluded to the fact that we went from one of the highest to now one of the lowest, and we have fundamentally changed how some of the Northern European countries are doing business with their Tax Codes, and we have changed the flow of foreign direct investments coming into this country where they were leaving or not coming here before. Is that correct?

Mr. WILLEY. Yes. I would say though we were in the middle now. We are not the lowest but we are in the middle, in the 20s.

Mr. HERN. You are right, because what happened after we changed ours, some of the Northern European countries actually went and lowered theirs even lower so that they were not not the lowest anymore. So we fundamentally affected the world. So that is how you can see as a response what happened when we changed our Tax Code.

I will be the first to tell you that I agree that this code should be simpler. It is not simple. When you take away the personal side and also change the pass-through side it gets very convoluted. In fact, I am on the record saying when I was asked early on how did this affect you, I said I will tell you when my taxes are due how it affected me. Because it is different. I would say as my friend from Florida said is that we do need to make it more simple.

I also sit on Budget. And we talk about this a lot. To make it permanent, that last 4 years will cost the Federal Government revenues \$957 billion. I will let you all figure out whether we can replace \$957 billion in 2025 or not, but it will be a monumental lift. You are exactly right in your determination.

I think each one of you would agree that the permanency of this is important for certainty, because while the C corporations, the large multinationals, were able to have certainty, as you as small business men and women and the people you represent want permanency. It will be a huge lift.

I want to tell each of you, I appreciate that this panel is always so great because we remove the count of the Ds and Rs from the conversation when the witnesses come and it is great to hear the facts being given out by you all today. And so thank you so much for traveling in and testifying to us.

Thank you, Madam Chairwoman.

Chairwoman VELÁZQUEZ. The gentleman yields back.

And we will go to a second round. I have a question. If you want to ask any other questions.

Mr. Golden, you are recognized for 5 minutes.

Mr. GOLDEN. Thank you, Madam Chair.

And I just want to quickly thank you for holding this hearing. I think it is important oversight work. I think the good news for all of you sitting out there is we have not heard a whole lot of people talking about repealing these outright, but I do think that we have to go in there with a scalpel and try and fix any unintended consequences. That is our job.

Congress has done that already in a bipartisan fashion. There was an effort put forward by Congresswoman Elaine Luria and the For Country Caucus where it was unintended but it happened where the survivors of service members killed in the line of duty suddenly had their widows' benefits taxed. And we have gone back and we fixed that. That is good, hard work, and it was the right thing to do.

Talking again a little bit about some of the tradespeople in Maine where maybe our construction economy is not booming so much. You can drive 6 hours in my district alone to cover it from north to south and there are several hours more of it south of us. So you can imagine losing your ability as a worker to deduct transportation, meals, because you are having to drive as far away as a place like Massachusetts to work. That is a pretty big loss. You can see how your tax cut can suddenly evaporate all of a sudden when you lose some of those other deductions like SALT as well.

I think these are things that we should have conversations about fixing. And when we do it, I think we are going to have to figure out how to pay for it. And one of the biggest I think problems we have all heard today is that while there may not be a mass effort to repeal the tax cut outright, it was self-sunsetting in that these personal exemptions or personal tax cuts and other things are going away in 2025. There has got to be some discussion about how to pay for that.

But I did just have a couple of quick questions for Ms. Gravelle. And you may not have it in front of you so if you could just maybe follow up if you do not know off the top of your head.

On the estate tax piece, I am curious moving from \$11 million to \$22 million jointly in terms of that exemption. How many family-owned estates or small businesses, family-owned small businesses, like let's say a farm are we talking about here? Do you have those numbers either as direct numbers?

Ms. GRAVELLE. I used to do estimates of how many farms paid the estate tax under the old rules, and depending on which state, sometimes I came up with a half a farmer. It was a very small number. Only about 1/10th of 1 percent of decedents pay the estate tax, and only about 2/10th of 1 percent before. So nobody pays this tax to speak of.

Chairwoman VELÁZQUEZ. Would the gentleman yield?

Mr. GOLDEN. Yes.

Chairwoman VELÁZQUEZ. So just 6,460 of the nation's 2.7 estates owed any taxes in 2017. And just 20 of those taxable estates, less than 1 percent, were small businesses.

Ms. GRAVELLE. That is right. I have a paper on this so I have looked at this a lot. But there is just very little. This is something people talk about more than actually happens. It very rarely happens. Of course, there are a lot of ways that you can delay the taxes and that you have ways to try to deal with any liquidity, but it really happens because the taxes are really due.

Mr. GOLDEN. I also want to ask, there was a lot of conversation about closing the carried interest loophole. Did that get closed in full?

Ms. GRAVELLE. No. No. There is conversation about it but it never seems to happen. And that is one option that could be considered because it is very high-income people who are essentially, most people believe are really earning wages.

Mr. GOLDEN. Thank you very much.

Madam Chair, I want to thank you again, and I do think we have got some good opportunities as a Committee to work together in a bipartisan way to fix some things. And at the end of the day, I think the conversation is, how do we make sure that we do this in a way that is to the great benefit of small businesses and working people first of all? So thank you very much.

Chairwoman VELÁZQUEZ. The gentleman yields back.

Mr. Evans, you are recognized for 5 minutes.

Mr. EVANS. Thank you, Madam Chair.

Madam Chair, I am sorry that my colleague who quoted that it would cost \$900 billion has left because budgets are about choices. And obviously, there was a choice made. And I do not get upset with it. It would not have been the choice that I would make but a choice was made. My Republican colleagues made corporate tax cuts their choice and passed the cost on to small businesses because the small business tax cuts will expire. So we need to set the record straight about what is happening here. And we need to be very clear so people will know what is happening here. So when we talk about that \$900 billion, which ultimately, the debate about how it is going to be permanent is because a decision was made. Now, I would not have agreed with that decision, but that decision was made.

So Ms. Gravelle, I am coming to you. How does the temporary nature of these tax provisions that disadvantaged small businesses have the impact when a decision was made to make the corporate tax cut permanent and make the tax cuts to benefit small businesses expire? That is a choice. So can you speak to how does the temporary nature of these tax provisions put a disadvantage to small business owners?

Ms. GRAVELLE. Well, there was a \$1.5 trillion constraint in the budget agreement. So by allocating a great deal to a permanent corporate tax rate, it used up too much revenue to be able to make these tax cuts permanent. Everything is about tradeoffs. And I think one of the things that has been kind of missed here is this debt issue is a serious issue. I mean, it is going to crowd out capital. It is going to reduce the funds available for private borrowing, and there is a great deal of concern about already with interest \$2

trillion. And then are you going to add another trillion? So it is about what your choices are.

Chairwoman VELAZQUEZ. Will the gentleman yield?

Mr. EVANS. Yes, I will yield.

Chairwoman VELAZQUEZ. On that point, Ms. Gravelle, so is it fair to say that one of the reasons we find ourselves closer to reaching the debt ceiling is because of lower corporate tax revenues as a result of the tax law?

Ms. GRAVELLE. Yes. The revenues were well more than I think about two-thirds or perhaps more of this total \$1.5 trillion. It was a big piece. And a lot of that revenue went to companies, not like Mr. Conger's company. We could have done something with his company with graduated rates or whatever. It went to Apple and Facebook and these large multinational corporations who then spent a lot of that money apparently in share buybacks. They did not apparently make investments.

Mr. EVANS. Which in return in a state like the state I am from, Pennsylvania, which we have that 99 percent of businesses, small businesses, 99 percent are the backbone, the fifth largest state in the Nation, as a result of a decision that was made. And it was a primarily person-made decision. We are now sitting in a situation that our small businesses are in jeopardy in terms of their own situations of expanding on their businesses and hiring people. Would you speak to that?

Ms. GRAVELLE. Well, I think if you give people a tax cut and then you say it expires, but you, in the meantime, carry on with a large—it is harder to see what is not obvious to us. So we see what we do on our tax return. What we do not see is what happens down the road when you have crowding out of investment that pushes up interest rates. So in that sense, the small businesses were the losers because they only got a temporary tax cut. But they are going to have to bear the burden of the borrowing cost of this additional debt, the corporations I think—

Mr. EVANS. And that is why I thank the Chairperson of this Committee, to me very appropriate having this discussion is very helpful to the public because those very small businesses that I was talking about, and she has been to my district which has 26 percent poverty and those businesses, you know, cannot have access to capital when you talk about crowding out.

So I want to thank the Chairwoman for really, this has been a really insightful discussion in the challenges that we have for the future.

I yield back the balance of my time.

Chairwoman VELAZQUEZ. The gentleman yields back.

And now we recognize the gentleman from Ohio, Mr. Balderson, for 5 minutes.

Mr. BALDERSON. Thank you, Madam Chair. Thank you all for being here today. I have been in a couple other Committees at the same time today.

This Committee plays a critical role in the success of our Nation's small businesses as well as our Nation's economy. According to the Small Business Administration's 2018 Economic Profile Report, 99.9 percent of businesses in the United States are considered to be small businesses. From my home state of Ohio, there are

nearly 950,000 small businesses employing more than 2 million people. Last year, Ohio's small businesses purchased \$10 billion in revenue, which funneled straight into our economy. Needless to say, small businesses are vital to our country's prosperity.

Since joining Congress, I have made it a point to engage with and support the small business community in Central Ohio. I have organized a Small Business Advisory Committee for the 12th District so I may better serve these hardworking pillars of our community.

In my conversations with my constituents and small business owners in Ohio, however, I have heard seamlessly endless stories about the benefits of a single piece of legislation, The Tax Cuts and Jobs Act. Just this past week I had the pleasure of meeting with a group of small business owners from across Ohio, including several from my district in Central Ohio. The individuals in this group work in an array of industries from auto parts dealers to manufacturers. And in this meeting, each and every one of these small business owners reiterated how beneficial the Tax Cuts and Jobs Act has been to their small businesses and its employees.

One example that I would like to highlight is a constituent of mine and a member of my Small Business Advisory Committee, Kelly. She is a vice president of GKM Auto Parts in my hometown of Zanesville, Ohio. In 2016, Kelly had to pull the plug on providing healthcare benefits other employees because the Affordable Care Act was not indeed affordable for many small businesses. In her words, the ACA drove our premiums through the roof, making it impossible for her to offer employees a decent health plan.

In anticipation of the Tax Cuts and Jobs Act passing Congress and being signed into law by President Trump in 2017, Kelly and her business opted to once again offer medical insurance to her employees with a 60/40 split in premiums. For her, this was solely possible due to the financial savings the Tax Cuts and Jobs Act produced for her business. In addition to health benefits, GKM Auto Parts was able to give raises to staff who had not seen a salary increase in 3 years. Kelly was adamant in telling me that absolutely none of the tax benefits her small business received as a result of the Tax Cuts and Jobs Act went into her pocket as the owner. Instead, this money was given directly to her employees through pay bumps and health benefits.

I have also spoken with small business owners about how the Tax Cuts and Jobs Act has resulted in their ability to expand staff. This job creation profoundly affects not only the small business itself, but to the community as a whole. In my home in Muskingum County, the unemployment rate has been cut in half since the enactment of Tax Cuts and Jobs Act now sitting at 3.7 percent.

Finally, and perhaps hitting closest to home, the family of a member of my own staff has been positively impacted by the passage of Tax Cuts and Jobs Act. Her parents' business, Mansfield Distribution Company, has been able to increase the pay for their employees by \$30 per week. Now, that might not seem like a lot to some folks, but when you multiply that amount by 52 weeks, that is an increase of \$1,500 each year. These employees have used this money to make home improvements, buy new cars, and support other local businesses.

As a member of this Committee, I will continue to work in support of small businesses of Ohio and around the company. We still have much work to do, but I am committed to serving my constituents in the Ohio 12th District who either operate or are employed by small businesses.

My question is for Mr. Conger. In your opening remarks, you discuss how your family's small business has seen a growth of 110 percent due to the Tax Cuts and Jobs Act. This is a phenomenal example of this legislation's success, and I thank you for sharing your story with this Committee. I believe you are uniquely positioned to speak about the impacts the Tax Cuts and Jobs Act has had on Main Street as you are the current Chairman of the Board for the Associated Builders and Contractors (ABC) of Ohio, the Chairman of the Board for the Workforce Investment Board of Butler, Clermont, and Warren Counties, and a board member of the JobsOhio Regional Economic Development Initiative of Cincinnati, not to mention you are also president of your family's small business, Conger Construction Group.

In your testimony, you discuss how your business, along with others in Ohio, have been able to reinvest in your small business and the community-at-large thanks to the increased revenue you have experienced through the Tax Cuts and Jobs Act. Would you please elaborate more about how your business growth and expansion has benefitted the town of Lebanon, Ohio and Warren County as a whole?

Chairwoman VELÁZQUEZ. Time has expired. I will give you 10 to 15 seconds.

Mr. CONGER. Thank you, Chairwoman.

The tax cut has greatly impacted the City of Lebanon in Warren County, Ohio. We see a multitude of businesses, manufacturers in Ohio being a day's drive from 60 percent of the population in America. So the manufacturing that is going on in Ohio and the growth of jobs and economic boom to businesses growing and expanding not only affecting my business but a multitude of others in and around Southwest Ohio.

Thank you, Chairwoman.

Chairwoman VELÁZQUEZ. The gentleman's time has expired.

Let me take this opportunity to thank all the witnesses for taking time to be here and for the insightful discussion we had today.

We all agree that small businesses should come first when it comes to tax policies and as I said at the onset, it has become increasingly clear that the lion's share of benefits from the Republican tax bill will flow disproportionately to the largest corporations and the very wealthy. What was touted as a clearer, more simplified tax system has simply left too many small businesses behind. Simply put, small businesses and working families were not a priority when this bill passed. We need to do better for Main Street.

With that I will ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, so ordered.

And if there is no further business to come before the Committee, we are adjourned. Thank you very much.

[Whereupon, at 1:22 p.m., the committee was adjourned.]

[Mr. Justin Conger did not submit his Responses to Questions in a timely manner.]

APPENDIX



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TESTIMONY

Statement of

Jane G. Gravelle

Senior Specialist in Economic Policy

Before

Committee on Small Business
U.S. House of Representatives

Hearing on

**“Is the Tax Cuts and Jobs Act a Help or
Hindrane to Main Street?”**

July 24, 2019

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Introduction

Madame Chairwoman and Members of the Committee.

Thank you for the invitation to discuss the issue of the effect on small business of the December 2017 tax revision (the “Act”) popularly known as the Tax Cuts and Jobs Act.¹

The Act was estimated to reduce taxes by almost \$1.5 trillion over 10 years.² It included individual tax cuts scheduled to expire after 2025, such as tax rate reductions and a 20% deduction for certain income of pass-through businesses (proprietorships, partnerships, and Subchapter S corporations that elect to be treated as proprietorships and partnerships). The deduction is phased out at higher incomes. However, if the pass-through business does not provide personal services and meets and pays sufficient wages or holds sufficient assets, the deduction is allowed at higher incomes. The Act included a permanent rate reduction for corporations (from 35% to 21%) and a variety of tax changes affecting business taxable income, such as a temporary provision allowing full expensing (immediate write-off rather than depreciation deductions over a period of time) for equipment. For FY2018, the Act was estimated by the Congressional Budget Office to reduce individual taxes by \$65 billion and corporate taxes by \$94 billion;³ \$28 billion of the individual revenue loss (as estimated by the Joint Committee on Taxation) was due to the 20% pass-through deduction.

Aside from the 20% deduction for pass-throughs, other provisions directly beneficial to small businesses are a permanent increase in the amount of equipment that can be deducted immediately and an increase in the scope of cash accounting. Provisions that raise taxes include eliminating graduated corporate tax rates, eliminating carryback of losses, ending the production activities deduction, limiting the meals and entertainment deduction, and disallowing the employee transportation and parking deduction.

On the whole, the tax cut can affect small businesses through two different mechanisms: (1) an increase in overall economic growth that increases demand for their products and (2) a decrease in tax burdens on investing in and operating their businesses.

Overall Economic Growth

Economic growth can occur through a short-run effect that increases the demand for consumer goods by individuals and investments by firms. Longer-term economic growth would arise from investment, but any incentive effects increasing investment would likely be offset by crowding out from increased deficits.

¹ The original title of the law, the Tax Cuts and Jobs Act, was stricken before final passage because it violated what is known as the Byrd rule, a procedural rule that can be raised in the Senate when bills, such as the tax bill, are considered under the process of reconciliation. The actual title of the law is “To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.” For more information on the Byrd rule, see CRS Report RL30862, *The Budget Reconciliation Process: The Senate’s “Byrd Rule”*, by Bill Heniff Jr.

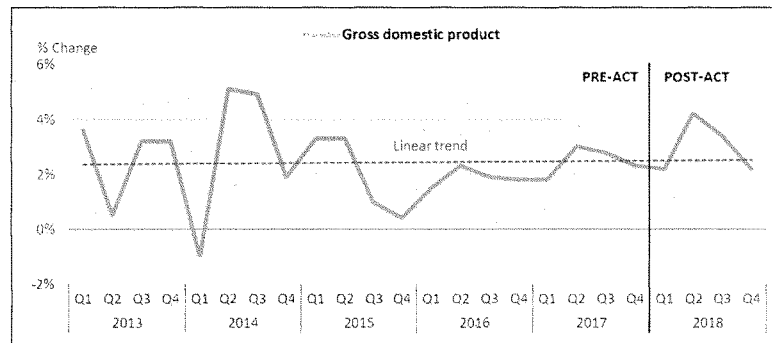
² This revenue cost is without macroeconomic feedback effects and does not include interest costs. See Joint Committee on Taxation (JCT), General Explanation of P.L. 115-97, JCS-1-18, December 20, 2018, at <https://www.jct.gov/publications.html?func=startdown&id=5152>.

³ Congressional Budget Office (CBO), *The Budget and Economic Outlook: 2018 to 2028*, April 2018, at <https://www.cbo.gov/system/files/2019-04/53651-outlook-2.pdf>.

Short-Run Effects

Although some claims were made for significant short-term growth, with some sources claiming the tax cut would produce enough growth to pay for itself, most analysts projected a relatively small effect on the economy in the short run, ranging from 0.1% to 0.8% of GDP in 2018.⁴ The Congressional Budget Office (CBO) projected a 2018 real growth rate of 2.7% without the tax cut and 3% with it, for a 0.3% growth increase due to the tax revision. Real GDP growth in 2018 was 2.9%. This growth rate is consistent with a relatively small first-year effect. Although it cannot be shown in retrospect how much of 2018's growth was due to the tax cut, the growth rate in 2018 was not unusual compared with recent history, as shown in **Figure 1**. These projections and observed growth rates tend to rule out pronounced short-run effects and suggest a small product-demand effect in general.

Figure 1. Growth in Real Gross Domestic Product, First Quarter 2013 Through Fourth Quarter 2018



Source: CRS Report R45736, *The Economic Effects of the 2017 Tax Revision: Preliminary Observations*, by Jane G. Gravelle and Donald J. Marples.

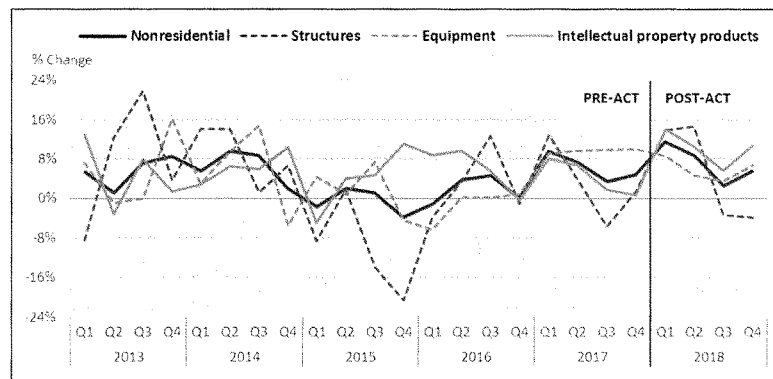
A limited short-run demand side effect is not surprising: for a demand-side stimulus to be effective, the savings from tax cuts must be spent. A significant share of the tax cut was for corporations that are more likely to save. Investment incentives might, however, spur corporate spending.

Business investment growth was quite strong in 2018, at a rate of 7%. However, this investment growth might not be attributed to the tax cut. The most pronounced growth occurred in the first two quarters of 2018, which would leave little time for planning. The patterns of investment growth were inconsistent with changes in investment incentives created in the tax revision: the incentive for buildings was the largest, but this category grew more slowly than the other categories; there was a tax increase for research and development (R&D), the main component of intellectual property, yet

⁴ See Congressional Budget Office (CBO), *The Budget and Economic Outlook: 2018 to 2028*, April 2018, at <https://www.cbo.gov/system/files/2019-04/53651-outlook-2.pdf>, for projections. For a more detailed discussion of first-year effects, see CRS Report R45736, *The Economic Effects of the 2017 Tax Revision: Preliminary Observations*, by Jane G. Gravelle and Donald J. Marples.

this asset grew at a rate similar to equipment and faster than buildings.⁵ In any case, investment growth rates are more volatile than overall output growth rates, as shown in **Figure 2**, and also are not out of line with the recent past.

Figure 2. Growth in Nonresidential Investment and Subcomponents, First Quarter 2013 Through Fourth Quarter 2018



Source: CRS Report R45736, *The Economic Effects of the 2017 Tax Revision: Preliminary Observations*, by Jane G. Gravelle and Donald J. Marples.

Longer-Run Effects

In the longer run, any demand-side stimulus would fade, and aggregate effects on the economy would depend on supply-side consequences for labor supply, savings, and investment. Under current law, the marginal tax rate reductions for labor income expire after 2025, and the chained CPI index will increase these tax rates in the long run. Moreover, even in the intermediate period tax rate reductions for labor supply are not large (averaging around 2 percentage points, according to CBO).⁶ In addition, empirical evidence suggests a limited behavioral response of labor supply to changes in tax rates.⁷ Similarly, expensing for equipment expires after 2025, although the corporate tax rate changes are

⁵ See CRS Report R45736, *The Economic Effects of the 2017 Tax Revision: Preliminary Observations*, by Jane G. Gravelle and Donald J. Marples. Investment incentives depend on the user cost of capital, which is the forgone earnings of investment tied up in the capital stock plus the wasting away of the asset. Intellectual property's dominant asset is research and development (R&D), and under the Act the tax burden increased on R&D investment. Intellectual property also includes purchased software and entertainment (such as movies and sound recordings), which did receive incentives. In 2018, R&D grew by 6.7%, whereas structures grew by 5%. Tax reductions should have had a negligible effect on purchased software because it is short lived and most of its cost is the wearing out, but this investment increased the most, by 10.3%. Entertainment had a significant decrease in user cost but grew more slowly than the other assets, at 2.4%.

⁶ CBO, *The Budget and Economic Outlook: 2018 to 2028*, April 2018, at <https://www.cbo.gov/system/files/2019-04/53651-outlook-2.pdf>.

⁷ See CRS Report R43381, *Dynamic Scoring for Tax Legislation: A Review of Models*, by Jane G. Gravelle for a discussion of the literature.

permanent. Long-run effects on investment, however, will likely be offset by crowding out, because a growing government debt borrows resources that could otherwise be used by the private sector for investment.

There is more variability in the projection of output effects in the longer run. In the intermediate term, while the individual tax cuts are in effect, most projections of output effects ranged from 0.0% to 2.2% and from 0% to 1% if excluding the 2.2% estimate, which was from a model that did not account for crowding out.⁸ By 2027, projected effects on output ranged from a negative 0.1% to 2.9% or from negative 0.1% to 1.1% if the value from the model not permitting crowding out is excluded. This long-run effect projection averages about 0.4%; the CBO estimate is 0.6%.⁹ Note that these increases represent the cumulative increase in growth rate over time compared to economic output without the tax revision. For example, a 0.4% increase in output after 10 years implies an increase in the growth rate each year of, on average, 0.04%, and even an increase of 1% implies an annual growth rate of one tenth of one percent. These projections suggest a modest, and less certain, growth effect in the longer run.

Special Issues with Small Business

The analysis above suggests results that assume the effects of the Act on demand are similar for small and large businesses. The activities small businesses engage in, however, are different from those of large businesses. In general, pass-through businesses tend to be smaller than C corporations, although some corporations are small businesses and some pass-through businesses are large (and the majority of firms of any type are small).¹⁰ Table 1 shows the organizational forms of C corporations (taxed under the corporate tax), along with S corporations, partnerships, and proprietorships taxed under the individual tax, along with their share of business income and average business income. Within partnerships, three types are shown: (1) general partnerships, whose partners each have liability exposure; (2) limited partnerships, whose most partners largely have limited liability, and (3) limited liability corporations (LLCs), which are organized as corporations but have characteristics that permit them to be taxed as pass-throughs. Different types of pass-throughs have considerable variability in their receipt sizes, although on average C corporations have larger receipts.

Table 1. Distribution of Business Receipts and Size of Receipts by Organizational Form, 2013

Entity Type	Share of Business Receipts	Average Business Receipts
C Corporation	60.4%	\$12,478,517
S Corporation	20.3%	\$1,584,133
Partnership	15.2%	\$1,464,726
General	1.2%	\$708,820
Limited	3.8%	\$3,066,910
LLC	8.9%	\$1,295,390

⁸ The excluded model is the Tax Foundation model.

⁹ CBO, *The Budget and Economic Outlook: 2018 to 2028*, April 2018, at <https://www.cbo.gov/system/files/2019-04/53651-outlook-2.pdf>.

¹⁰ See CRS Report R44086, *Pass-Throughs, Corporations, and Small Businesses: A Look at Firm Size*, by Mark P. Keightley and Joseph S. Hughes. Some higher-income individuals who have incomes in part from business (such as a consulting business) may have organized that part of their activities in a corporation in order to take advantage of the lower graduated corporate rates that existed in prior law.

Entity Type	Share of Business Receipts	Average Business Receipts
Non-Farm Proprietorships	4.0%	\$55,725

Source: Internal Revenue Service, Statistics of Income: Integrated Business Data, Table 1. Corporate Tax Data, Table 16, S Corporation Data Table 4, Partnership Data Table 1, and Non-Farm Proprietorship Data Table. Data are at <https://www.irs.gov/statistics>.

As shown in **Table 1**, about 60% of business receipts fall in the corporate sector. However, within activities, there are significant differences, in particular in the two types of industries that produce investment goods: construction and manufacturing. C corporations account for 78% of manufacturing, but only 24% of construction. Unincorporated businesses also own a larger share of structures (55% of nonresidential structures outside public utilities and 96% of residential rental structures) than their share of business receipts or the total capital stock (which is estimated at 40%).¹¹

Although a full-scale input-output model would be required to determine the aggregate effects, effects arising from any supply-side incentives for investment could be smaller for smaller business. If most increase in spending is on investment assets, and the pass-through businesses dominate the construction industry, it is useful to examine incentives for all structures. Before the individual tax provisions expire, or if they become permanent, the tax law will provide a negative incentive for residential construction. The tax law significantly reduced the number of itemizers and the benefits of itemizing deductions, through the limits on deductions for state and local taxes and a higher standard deduction, reducing the estimated share of taxpayers benefitting from mortgage interest deductions from 20.1% to 8.2% and reducing the benefit by 58%.¹² Owner-occupied housing accounts for almost half the stock of structures (48%), and residential including rental accounts for 55%.¹³ If the individual tax provisions expire, the effect on owner-occupied housing will disappear as the changes in the standard deduction and itemized deductions will expire, but smaller businesses will lose their rate reductions and pass-through deductions, affecting them through both the construction industry (as the increase in demand for nonresidential structures declines) and their own business in the cost of acquiring structures. In addition, as long-lived assets, demand for structures is more sensitive than demand for equipment to an increase in interest rates that would eventually be expected to occur through crowding out. As time passes, the crowding-out effects of a growing deficit will dominate supply-side incentives and those effects are expected to occur more quickly and more strongly for long-lived assets such as structures.

Direct Tax Benefits Provided by the Act

Rate Reductions and the Pass-Through Benefits

The tax revision enacted a number of provisions affecting unincorporated business, with perhaps the most prominently discussed being the pass-through deductions (sometimes called the Section 199A deduction). This provision is, as is the case of most other individual provisions, temporary and

¹¹ Data from the National Income and Product Account (NIPA) count Subchapter S corporations in the corporate sector and their data must be adjusted to reallocate this share to pass-through businesses. These estimates adjust for that effect. See CRS Report R44242, *The Effect of Base-Broadening Measures on Labor Supply and Investment: Considerations for Tax Reform*, by Jane G. Gravelle and Donald J. Marples.

¹² The Tax Policy Center estimates that the percentage of taxpayers benefiting from the home mortgage interest deduction fell from 20.2% in 2017 (Table T18-0169, at <https://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-october-2018/t18-0169-tax-benefit-itemized>) to 8.2% in 2018 (Table T18-0171, at <https://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-october-2018/t18-0171-tax-benefit-itemized>).

¹³ NIPA's Fixed Assets data, Tables 1.1 and 5.1, at <https://apps.bea.gov/itable/index.cfm>.

expires after 2025. It allows a 20% deduction for pass-through business income, with no restrictions for married taxpayers with under \$315,000 of taxable income and other taxpayers with under \$157,000 of income. The benefit is phased out between \$315,000 and \$415,000 for married couples and between \$157,000 and \$207,000 for other returns. (These values are for 2018 and are indexed for inflation). However, earnings from firms whose trade or business is not in performing services (e.g., doctors, lawyers) may qualify even though their incomes are above the phaseout. For those nonservice firms, a deduction is allowed regardless of taxable income up to the greater of (1) 50% of W-2 wages paid or (2) 25% of W-2 wages plus 2.5% of the unadjusted basis of depreciable assets when acquired.

Although the pass-through deduction has received a lot of attention, individual business owners also received rate reductions. For example, at the top income level (above \$600,000 in taxable income for married couples) tax rates fell from 39.6% to 37%, for a 2.6 percentage point reduction in the marginal tax rate. If the full 20% deduction were allowed, the rate would be further reduced by 7.4 percentage points (20% of 37%). The relative effects, however, vary across the taxable income categories. **Table 2** shows the relative rate reductions and potential pass-through deductions for a joint return at 2018 income levels.

Table 2. Effect of Changes in Regular Tax Rates and the Pass-Through Deduction, Joint Returns, 2018

Taxable Income Level	Prior Tax Rate	New Tax Rate	Change in Rate	Effect of 20% Deduction if Eligible
More than \$600,000	39.6	37.0	-2.6	-7.4
\$480,050-\$600,000	39.6	35.0	-4.6	-7.0
\$424,950-\$480,050	35.0	35.0	0.0	-7.0
\$400,000-\$424,950	33.0	35.0	2.0	-7.0
\$315,00-\$400,000	33.0	32.0	-1.0	-6.4
\$237,950-\$315,000	33.0	24.0	-9.0	-4.8
\$165,000-\$237,950	28.0	24.0	-4.0	-4.8
\$156,150-\$165,000	28.0	22.0	-6.0	-4.4
\$77,400-\$156,150	25.0	22.0	-3.0	-4.4
\$19,050-\$77,400	15.0	12.0	-3.0	-2.4
\$0-\$19,050	10.0	10.0	0.0	-2.0

Source: CRS Calculations.

In most cases, the pass-through deduction, if available, has a larger effect on marginal tax rate than the regular rate reduction, but the magnitude of the overall pass-through deduction is reduced by the phaseout. The Tax Policy Center has estimated the distribution of the benefit of the pass-through deduction as well as the effects on marginal tax rates according to income quintile. Using their data, the rate reduction reduced marginal tax rates by 3.8 percentage points. The pass-through deduction

reduced the average rate by 3.0 percentage points, with the marginal effect likely slightly higher.¹⁴ These data suggest that the individual rate cut was as important as the pass-through deduction.

The limited effect of the pass-through deduction as implied by the rate changes in **Table 2** is due, in large part, to the phase out. A Treasury study estimated that without the phaseout the revenue cost would have increased the estimated cost by 66%, with 59% of the difference due to the service sector businesses and the remainder from high-income individuals with businesses that did not have enough wages or assets to fully qualify.¹⁵ The study also found that the phase-outs reduced the share of the benefit from the deduction from 83% to 72% for the top 5% of returns by income, and from 64% to 47% for the top 1% of returns. The study also found that of the top five business types (ordered by total business income)—professional services, real estate, finance and insurance, construction, and health—three of these business types (professional services, health, and finance and insurance) accounted for 56% of the effect of the phase out, while the other two (construction and real estate) account for 16%.

The pass-through deduction allowed a way to provide an additional tax cut to unincorporated business compared with corporate business, as the corporate tax rate was cut from 35% to 21%, or by 14 percentage points, more than twice as large as the overall rate reduction for unincorporated business (including both statutory rate reductions and the value of the pass-through deduction). One element of the corporate changes that was not favorable to small business was the elimination of graduated rates. This graduated structure imposed a rate of 15% on the first \$50,000 of income, 25% on the next \$25,000, and 34% thereafter. As a result, small corporations with around \$90,000 or less of taxable income pay higher rates under current law.¹⁶

Issues of Complexity

The pass-through deduction presents complications for taxpayer compliance and for administrative enforcement. A prominent issue has been identifying an ineligible high-income personal service business. Although this provision's purpose was presumably to prevent income from personal services, which is similar to wage income, from being eligible for the deduction, it is not a simple matter to define personal service income. The law enumerated certain activities (such as health, law, consulting) and also contained a catch-all category (a business in which the principal asset is the reputation and skill of one or more employees or owners and reputation of the individual). Even the enumerated activities are not easy to define (for example, whether medical laboratories are included in health). The catch-all category could be broadly or narrowly defined. The personal service provision has also led to "crack and pack" strategies to separate ineligible activities from eligible ones or combine businesses to maximize eligibility for the deduction. Although regulations have been issued that provide more detailed guidance, areas of ambiguity will inevitably remain.¹⁷ Another area

¹⁴ For data on the distribution of the pass-through deduction, see Tax Policy Center, at <https://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-october-2018/t18-0213-tax-benefit-20-percent>. For data on marginal tax rates, the tax rate in each bracket for wages and salaries was used, see Table T17-0324, Effective Marginal Tax Rates (EMTR) on Wages and Salaries, 2018, at <https://www.taxpolicycenter.org/model-estimates/conference-agreement-tax-cuts-and-jobs-act-dec-2017/t17-0324-effective-marginal>. Effective marginal tax rates were weighted by the distribution of returns that received the pass-through deduction.

¹⁵ Lucas Goodman et al., Simulating the 199A Deduction for Pass-through Owners, Department of the Treasury, Office of Tax Analysis, Working Paper 118, May 2019, <https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/WP-118.pdf>

¹⁶ The exact figure is \$90,384.62. To solve for this value set $0.34*(x-75000) + 13750 = .21x$, where x is income.

¹⁷ See IRS regulation 107892-18m at <https://www.irs.gov/pub/irs-drop/t18-reg-107892-18.pdf> Regulation.

of complexity is defining the differences between investment activities (in which income is not eligible) and a trade or business.

The changes in tax rates, pass-through provisions, and graduated corporate rates have created new considerations of entity choice by taxpayers. As indicated by the tax rates in **Table 2**, most high-income taxpayers will have higher rates than rates paid by corporations on business income, but any dividends will be subject to an additional tax if they incorporate. For most pass-through businesses, income is subject to an additional 3.8% tax, leading to a top individual rate of 40.8%.¹⁸ This tax is not imposed on active business income of shareholders in Subchapter S corporations who have a maximum rate of 37%. Depending on how much income is to be paid out in distributions, whether the taxpayer is eligible for the pass-through deduction, and the income level, either business entity form may be preferable. The maximum combined corporate and individual rate for a high-income taxpayer is 39.8% if all income is distributed, but is 30.4% if half of income is distributed, and 21% if none is distributed.¹⁹ One complication of changing entity choice is that, with uncertainty about future tax rates both corporate and individual, individuals moving to corporate form might subsequently find difficulties in moving back to noncorporate form, as that change may involve some tax payments. (It is much easier to move from noncorporate to corporate form).

These changes have also affected other planning strategies, such as how much of Subchapter S owner-employee payments should be for wages. The normal strategy is to minimize wages to avoid payroll taxes, and the pass-through deduction will increase that incentive because wage income is not qualified income for the pass-through deduction. This incentive might be offset, however, if the firm is subject to the limit that involves 50% of wages. The alternative limit that covers wages and 2.5% of assets may cause businesses to purchase rather than lease assets.

Incentives to Invest in Assets

As discussed below, most investment in equipment and certain building improvements is expensed. In those circumstances a reduction in the tax rate (either through statutory rates or the pass-through deduction) creates a disincentive to invest at the margin.²⁰ For equity investment, expensing produces a zero effective tax rate regardless of the statutory rate. The tax savings from taking a deduction up front offset the tax on earning (which are discounted because these taxes are paid in the future). For debt-financed investment, lower rates discourage capital investment because they reduce the value of interest deductions. In the case of investment in structures and any assets not eligible for expensing, however, the lower tax rates and pass-through deduction result in an incentive to invest.

The pass-through deduction also produces tax increases in the phaseout range for taxpayers who are not qualified because they provide ineligible services or do not have enough employee wages or assets to take additional deductions. The magnitude of disincentives depends on how much business income was qualified for a deduction. For example, in the case of a joint return, if \$100,000 was eligible for the deduction (with other income from other sources), each dollar of income above \$315,000 of taxable income would result in a \$0.20 increase in taxable income as deductions are lost. This increased tax has the reverse effect of a lower rate.

¹⁸ The 3.8% tax is imposed as a net investment tax on capital gains, corporate dividends, and passive income of pass-throughs; it is imposed as a Medicare tax on proprietorships, active partnership income, and wages paid to Subchapter S owners. Active income of Subchapter S corporation shareholders is not subject to the tax.

¹⁹ The tax rate is $0.21 + x(1 - 0.21) * 0.238$, with 0.21 the corporate rate, 0.238 the dividend tax rate, and x the share of income distributed. If undistributed income is retained until death no capital gains tax will apply.

²⁰ If a firm undertakes all of the desirable investments, the last investment earns just enough profit to be justified and is referred to as a marginal investment.

An investment disincentive is also created if tax rates are expected to expire. The deductions for expensing take place at a lower rate than the subsequent taxable income which, for example, creates an effective tax on equity investment whereas a constant rate would produce a zero effective tax rate.

Arguments are sometimes made that the cash flow provided by tax cuts will lead to investment. For some firms, especially small ones, there may be cash flow constraints that prevent investments, and across-the-board tax cuts may permit some investment. Whether that outcome is desirable depends on whether the investment was sound, which may require considering why the firm did not have access to credit. If there is a credit market failure, addressing that issue directly might be a better alternative. In any case, businesses that are large and successful (and according to data in **Table 1** tend to dominate small business) are not likely to invest a cash windfall, from a reduction in tax, absent investment incentives.

Both for investment incentive purposes and cash flow issues, more targeted tax approaches than rate cuts (either through regular rates or the pass-through deduction) exist, such as shortening depreciation periods for buildings or providing investment credits,²¹ tax incentives that are contingent on making an investment.

Depreciation (Cost Recovery)

A second group of provisions adopted in the Act relates to cost recovery. Under prior law, up to \$500,000 of the cost of equipment could be expensed (deducted immediately rather than depreciated over a period of time), with the amount phased out dollar for dollar beginning at \$2 million of acquisitions. This provision is also referred to as Section 179 expensing. The Act increased the \$500,000 amount to \$1 million and the beginning of the phaseout to \$2.5 million, and indexed it for inflation.²² This provision is permanent.

During the years through 2022, this tax provision is not meaningful, because business in general is allowed to expense equipment without a dollar limit under a general business expensing rule (sometimes called bonus depreciation). After 2022, a partial expensing rule would make Section 179 expensing relevant, assuming the full expensing for all taxpayers is allowed to expire. Section 179 also remains relevant for certain qualified structures (restaurant, retail, and leasehold improvements), which were inadvertently excluded from the definition of eligible property for the general expensing provision, an oversight that also caused an increase in their depreciable lives from 15 years to 39 years. Thus, Section 179 is beneficial for small businesses making structural improvements in their buildings in certain circumstances.

The phaseout of the expensing (assuming expensing in general expires) creates a disincentive to invest.

Other Tax Provisions

A number of other tax changes affect small businesses. The Act, for example, contained an expansion of eligibility for cash flow accounting, which may simplify small business tax compliance. Some provisions that raise taxes include ending the production activities deduction, limiting the meals and entertainment deduction, and disallowing the employee transportation and parking deduction. There is also a restriction on the deductibility of investment interest, but firms with less than \$25 million in

²¹ A flat investment credit is not neutral, as it favors short-lived assets. A credit can, however, be designed to be neutral.

²² For a discussion of these provisions see CRS Report RL31852, *The Section 179 and Section 168(k) Expensing Allowances: Current Law and Economic Effects*, by Gary Guenther.

gross receipts are not subject to that limit, so it is unlikely to affect most small businesses. The provisions discussed in this subsection are unlikely to have a significant effect on investment.

U.S. House of Representatives
Committee on Small Business
Is the Tax Cut and Jobs Act a Help or a Hindrance to Main Street?
Testimony of Grafton H. Willey, IV CPA
July 24, 2019

*Testimony of Grafton "Cap" Willey
On Behalf of the National Small Business Association*

U.S. House of Representatives

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Is the Tax Cut and Jobs Act a Help or a Hinderance to Main Street?

Testimony of Grafton H. Willey, IV CPA

July 24, 2019

Good Morning, Chairwoman Velazquez, ranking member Chabot and members of the House Small Business Committee. My name is Grafton H. Willey, IV. Most people know me as Cap Willey. I am a CPA who has just retired from the national CPA Firm of MHM CBIZ after 47 years of dealing with small business taxation issues. I still maintain a small practice as well as consulting with Southern New England small businesses. I have been a Small Business advocate for most of my career. I served as the RI Chair of the 1986 and 1995 White House Conferences on Small Business. I am a past Chair of the National Small Business Association (NSBA). NSBA is the nation's oldest small business advocacy organization, with over 65,000 members representing every sector and industry of the United States. The NSBA is a staunchly nonpartisan organization devoted solely to representing the interests of the small businesses which provide almost half of the private sector jobs to the economy.

I am also an owner of an Italian Restaurant in RI and some businesses in the cranberry industry. I am here representing myself as a tax practitioner, myself as a small business owner, the NSBA, and the RISCPA.

In responding to questions about taxation there is always one standard answer which is "It Depends". That is applicable to the Tax Cut and Jobs Act (TCJA). There are some good things in the legislation, there are some bad things in the legislation. I view it as a work in progress. In fact according to a forthcoming NSBA Economic Survey, 29 percent of small business owners said that filing taxes in 2018 was more difficult when compared with 2017. I can tell you that tax preparers say the same thing.

In my estimation the primary need in Tax Reform was to address the competitiveness that the US was experiencing in international taxation for C-Corporation taxation. With probably the world's highest corporate tax rate of 35percent (even though that rate was often reduced by special deductions and tax credits) we were getting killed when competing with countries like Ireland at 12.5 percent and much of Europe in the mid-20 percent's. Global corporate finance

*Testimony of Grafton "Cap" Willey
On Behalf of the National Small Business Association*

will find ways to minimize the international tax burdens and the movement of capital is very fluid in international finance. I believe that most in Congress recognized that this was become a major problem. Bringing the corporate tax rates down to 21 percent has kept us competitive internationally where there would be less of an incentive to do major restructuring to save marginal differences in tax rates.

The National Small Business Association (NSBA) established its basic principles of Tax Reform a few years ago. I was a major contributor to these principles. These are the principles that we measure any Tax Reform against. They are as follows:

- 1) Our system should be designed to tax only once
- 2) Our system should be stable and predictable
- 3) Our system should be visible to the taxpayer
- 4) Our system should be simple in its administration and compliance
- 5) Our system should promote economic growth and fairness between large corporations and small corporations
- 6) Our system should use commonly understood finance and accounting concepts
- 7) Our system should be grounded in reality-based revenue estimates
- 8) Our system should be fair in its treatment of all citizens
- 9) Our system should be transparent.

The Tax Cut and Jobs Act only partially measures up to these principles. We have concerns that more should be done to ensure simplification, fairness and long-term sustainability. According to the forthcoming report, when asked how to fix the Tax Cuts and Jobs Act, parity, simplification and permanency are the top priorities for small business owners.

After much discussion and analysis, the NSBA did support passage of the Tax Cut and Jobs Act. However we recognize that it is not perfect. It may be a good start at Tax Reform, but more hard work is needed in the areas of tax simplification, parity in taxation between large corporations and small businesses, doing away with sunsets, making tax reform permanent, and addressing the deficit. The NSBA has done a Tax Reform Report Card that looks at many of the various aspects of the Bill and rates the areas or concerns on a five-star rating system. I have included this Report Card in your package.

While the Tax Cut and Jobs Act encompasses a lot of areas of taxation, I will focus on how it has impacted Small Businesses as they deal with the changes in tax laws.

*Testimony of Grafton "Cap" Willey
On Behalf of the National Small Business Association*

Tax Simplification:

If Tax simplification was a goal of Tax Reform this legislation was a dismal failure from a Small Business perspective. While some individual taxpayers will find filing their 1040's will be simpler with the elimination of deductions, exemptions and credits. The summary pages of the 1040 look simpler but with all of the required sub schedules it is not much different in putting together than the old forms prior to the TCJA. This legislation is not simpler for most Small Businesses. It has also not been simpler for the tax professionals preparing the tax returns. When I first read the Tax Reform legislation, I took the 400 plus pages of paper in my hand and told the staff that they should not worry about their jobs. This is not simplification.

In a recent 2017 NSBA survey 40% of Small Business owners spend 80 hours per year dealing with Federal income taxes and the majority spent more than 40 hours per year. It is more than likely that most small businesses will have to rely on their tax professionals more under tax reform rather than less.

Tax Permanency or Rate Reductions and Credits:

As stated above the move to make the corporate rate change was important to make the US more competitive in the global economy. Making these rate change permanents is important to give the international community confidence that we are committed to maintaining a stable tax system. Unfortunately, the non-corporate and individual changes are not made permanent and are set to expire generally after 2025. My initial reaction to this was not that much concern. No way would a future Congress allow the changes to really expire. That concern has changed with me. I now see the real possibility and probability of Congress not agreeing on an extension in 2025 which would result in a substantial tax increase without a vote being taken. I can envision a lot of finger pointing by both sides blaming the other for inaction, with the taxpayers being slammed. We have seen this happen in the past and I really think that this is going to be a reality for us in 2025. For those respondents to the NSBA soon to be released Economic Survey, the biggest burden facing small business owners under the Tax Cut and Jobs Act is uncertainty with taxes moving forward. The lack of permanence is making long-term planning nearly impossible.

Parity Between Large Corporations and Small Corporations:

The Tax Cut and Jobs Act generally provided good benefits for Large Corporations and left Small Business short on the parity issue. I would say that the international taxation provisions of the bill are very complex and cumbersome. The tax permanency described above is a major

*Testimony of Grafton "Cap" Willey
On Behalf of the National Small Business Association*

problem for Small Business. Most Small Businesses operate as pass-through entities for tax purposes. A recent estimate was that only 17 percent of Small Businesses operate as C-Corporations and would be able to take advantage of the lower corporate tax rates that moved from 35 percent to 21 percent.

Pass-through entities pass their income down to the shareholder/owners of the business and pay their taxes at the individual tax rates. A compromise was made to allow qualified small business pass-throughs a 20 percent (Sec 199A) deduction to attempt to provide some relief to small businesses. Unfortunately, this calculation is very complex, and the 20 percent rate does not provide equal parity with large businesses. A rate closer to 28% would have been more appropriate to provide real parity. There is a lot of questions about what constitutes a qualified small business eligible for the 20 percent deduction. I understand the reasoning behind the exclusion of personal service businesses which could have manipulated wage income and business income to their advantages. I am not sure why some specific groups were included or excluded, other than for political pressure.

Other parity issues remain such as the full deductibility of health insurance premiums and other fringe benefits favor large corporations over small businesses.

Limitations on State and Local Taxes to \$10,000:

One of the main reasons I wanted to testify before you today is to bring to your attention the problem with the limitations on State and Local taxes to \$10,000. There has been a lot of angst from the high tax states about the limitations on State and Local taxes. For example, Rhode Island is a high tax state and we are being affected by this limitation. I do not have as much of a problem with the limitation on state income taxes on wages and on real estate as some of my professional colleagues. In most other country tax systems, there are not the itemized deductions that we have had in the US. Many offer a standard deduction only.

Where I do have an issue is the taxation of state income taxes on the business income of pass-through entities. In a C-Corporation (regular Corporation) the entity pays the state and local taxes and claims a deduction for the payment before the calculation of Federal income taxes. If the entity is a small business pass-through entity the taxes are paid by the owners/shareholders. When they pay a state income tax at the individual level, they will be limited to the \$10,000 limitation which will include all of their other state and local taxes. This will mean that in most cases they will not get a tax benefit of paying the state taxes on the business income. This arrangement puts the small business pass-through at a tax disadvantage compared to the C-Corporation. The TCJA does allow for the deduction of State and Local taxes paid by the business entity. The question is if the state income tax on the business income of a

*Testimony of Grafton "Cap" Willey
On Behalf of the National Small Business Association*

pass-through entity is paid at the entity level would it be deductible by the entity? We believe that a case can be made for that and we believe that Congress should clarify this as being allowed.

In RI, I authored a Bill that passed last month to allow a pass-through entity to elect to pay its State income tax on its business income at the entity level which hopefully will allow it a deduction for Federal income tax purposes. This set up would provide the same tax treatment that is allowed for C-Corporations. Some other states such as Connecticut, Wisconsin, and Oklahoma have enacted similar provisions.

The State and Local Tax (SALT) limitation has caused legislators in high tax states to try to set up work arounds to this limitation. The Internal Revenue Service (IRS) has attacked the attempts of some states to create deductible Charitable funds to reclassify real estate taxes paid into charitable deductions which in most cases is a sham. I concur with the IRS attack on these attempts. The IRS has published regulations stating that this arrangement will not be accepted.

The proposal on state income taxes on pass-through business income should be upheld. It should be a matter of fairness and parity. This is an area that should be solved at the Federal level rather than at the state level. This change should have bi-partisan support that would help 80 percent of Small Businesses. I have provided a copy of the RI legislation in your package as well as my testimony before the RI House Finance committee on the legislation this June. I would urge you to recommend that the House Ways & Means Committee pass this fix to the Tax Cut and Jobs Act.

Full, Immediate Expensing of Capital Investments and Doubling of the 179 Expensing Cap:

The enactment of the 179 Direct expensing provisions have been one of the most effective tax provisions to help Small Businesses make and deduct the costs of investing in their businesses. Matching the cash outlays with the tax deductions help Small Businesses manage their cash flows with their tax liabilities. The doubling of the 179 deductions and the immediate expensing provisions are a positive improvement to our tax system. The fact that these provisions are set to expire in 2025 should be addressed. They should be permanent to enable Small Businesses to do long term planning. The Tax Cut and Jobs Act did have some issues involving certain types of accelerated write-offs for certain types of properties that should be cleaned up in any Tax Reform 2.0 legislation.

*Testimony of Grafton "Cap" Willey
On Behalf of the National Small Business Association*

Research & Development Credits:

Congress has played around with the Research & Development credits for years. There seems to be no understanding that research and development requires years of advance planning. The on again off again adjustments to the R&D credits wreaks havoc on R&D planning especially for Small Businesses. The current credit is preserved for now, but it is scheduled to change in 2021. The R&D Credit needs to be maintained and be consistent to allow for long term R&D planning in the future.

Estate Tax Exemption:

The Estate tax often is very much a small business issue. Non-Public Small Businesses are usually difficult to value and are an illiquid asset in the hand of the owners. The assessment of an estate tax on a small business often will put a substantial financial burden on the small business which will divert funds from being able to be reinvested into the business. We applaud the increase in the estate tax exemption, but we are concerned that the provision expires after 2025. These changes should be made permanent. We support the full repeal of the estate tax for Small Businesses and Family Farms.

Raising the AMT Exemption:

While raising the AMT exemption is an individual tax provision, it was affecting more and more people each year. The change was overdue. Again, this provision is not permanent, expiring in 2025. The AMT should be fully repealed. With the elimination of Miscellaneous deductions and the limitations on state and local taxes there is little need for an AMT Tax.

Meals & Entertainment Expenses:

Some concerns have been raised about the limitations of entertainment expenditures under the Tax Cut & Jobs Act. An argument can be made that Small Businesses rely more heavily on relationship building to obtain sales than larger businesses that can afford higher cost advertising and marketing expenditures that would be deductible. Personally, I have less concern about this limitation.

Deficit Reduction and Control of Spending:

While Small Business wants to be treated fairly in any Tax Reform, we are concerned about the burgeoning National Debt that is over \$20 Trillion and climbing steadily. A slight increase in the interest rates will substantially increase the cost of carrying this debt. People have talked about the Debt and the Deficit for years, but nobody seems to take it seriously pushing it down the

*Testimony of Grafton "Cap" Willey
On Behalf of the National Small Business Association*

road for our children and grandchildren to deal with. It is an issue that needs to be dealt with on both the revenue side and the spending side.

Overall Impact of the Tax Cut and Jobs Act on Small Businesses:

Overall, I personally think that the Tax Cut and Jobs Act has had a positive impact on the US economy and on Small Businesses. However, NSBA's Survey speaks differently on this. Just one in three small business owners say that the Tax Cut and Jobs Act has been directly beneficial to their business, while one in ten say it will harm their businesses. The majority say that it is not impacting their businesses at all or they are not sure yet of any impact. Of the 35 percent of small business owners who say that the Tax Cut and Jobs Act has benefited their business, just half of those say that the benefit is in lower taxes while one in four say the legislation is increasing consumer spending in their business.

Complexity and inconsistency within the tax laws pose a significant and increasing problem for small businesses. The ever-growing patchwork of credits, deductions, tax hikes, and sunset dates is a roller coaster ride without the slightest indication of what is around the corner. To promote economic growth, job creation, capital formation, and international competitiveness, changes to the TCJA are required. However, unless and until Congress agrees upon a replacement, we must fix tax problems with the current law by developing simplification measures that are fair and fiscally responsible.

Coupled with a less aggressive regulatory environment Small Businesses are generally doing better financially and are cautiously optimistic looking forward. Being able to find qualified employees is sometimes a challenge which is a product of competition for workers in a good economy and somewhat reflected in shortfalls in our educational systems which are not producing the quality of students needed to succeed in the 21st century. (A topic for another day). How long this economy will continue to expand is always a concern?

In my practice I have found that on average individuals at most income levels have paid less in Federal income taxes than in previous years. Many may not feel that they have because their tax refunds may have been less than in previous years. Federal withholding tables were reduced early in 2018 which left a number of people under withheld which resulted in less of a refund or a balance due when they filed their tax returns. The real question should be; did they pay more or less taxes on their similar taxable income, not the size of their refunds?

*Testimony of Grafton "Cap" Willey
On Behalf of the National Small Business Association*

Initial analysis has suggested that most of the tax benefits went to the higher income taxpayers. I am not seeing that impact. Those taxpayers with income from qualified businesses are showing tax savings but not to the extent that C-Corporations have benefited. I also see many wealthy taxpayers paying considerably more in tax under the new tax regime. Wealthy people that have multiple homes, high real estate and state income tax payments, high mortgages, and high miscellaneous deductions are paying much more in Federal income taxes. I have people paying \$50,000 to \$150,000 more under tax reform than they did under the old tax system. They have been surprised and not particularly happy about it.

In summary Small Business views, the Tax Cut and Jobs Act as a work in progress. Technical corrections should be made. Tax Reform should be followed up addressing the issues not addressed in this law. We need to have a tax system that is fair to all and promotes economic growth for all sectors of our economy. Small Business is an important economic driver that needs the full support of our legislative leaders.

Again, I would like to thank Chairwoman Velazquez and the members of the Small Business Committee for the opportunity to speak today. I would be happy to answer any questions that you may have.

Respectfully Submitted

Grafton H Willey, IV, CPA

*Testimony of Grafton "Cap" Willey
On Behalf of the National Small Business Association*

US House of Representatives

Committee on Small Business

Is the Tax Cut and Jobs Act a Help or a Hinderance to Main Street?

Testimony of Grafton H. Willey, IV CPA

July 24, 2019

Appendix

Invitation to Testify

Truth in Testimony Disclosure Form

Grafton H Willey-CV

NSBA TAX REFORM-WHAT IT MEANS FOR SMALL BUSINESS-Tax Reform Report Card

NSBA Principles for Tax Reform

State of Rhode Island-2019 H-5576 Work around legislation for Pass-Through Entities-passed
June 2019

Testimony of Grafton H Willey IV before the RI House Finance Committee on H-5576 Work
around legislation for Pass-Through Entities

Press Release on filing of RI H-5576 by RI House Majority Leader Joseph Shekarchi 2/27/2019

*Testimony of Grafton "Cap" Willey
On Behalf of the National Small Business Association*

Truth in Testimony Disclosure Form

In accordance with Rule XI, clause 2(g)(5)*, of the *Rules of the House of Representatives*, witnesses are asked to disclose the following information. Please complete this form electronically by filling in the provided blanks.

Committee: Small Business

Subcommittee: _____

Hearing Date: July 24, 2019 11:30am

Hearing Subject:

Is the Tax Cuts & Jobs Act a help or a Hinderance to Main Street?

Witness Name: Grafton H. Willey, IV

Position/Title: CPA and Small Business Owner

Witness Type: ☐ Governmental ☒ Non-governmental

Are you representing yourself or an organization? ☐ Self ☒ Organization

If you are representing an organization, please list what entity or entities you are representing:

National Small Business Association (NSBA), RI Society of CPA's

If you are a non-governmental witness, please list any federal grants or contracts (including subgrants or subcontracts) related to the hearing's subject matter that you or the organization(s) you represent at this hearing received in the current calendar year and previous two calendar years. Include the source and amount of each grant or contract. *If necessary, attach additional sheet(s) to provide more information.*

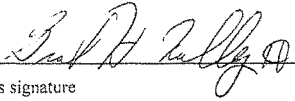
No Federal Grants

If you are a non-governmental witness, please list any contracts or payments originating with a foreign government and related to the hearing's subject matter that you or the organization(s) you represent at this hearing received in the current year and previous two calendar years. Include the amount and country of origin of each contract or payment. *If necessary, attach additional sheet(s) to provide more information.*

No contracts with foreign governments

False Statements Certification

Knowingly providing material false information to this committee/subcommittee, or knowingly concealing material information from this committee/subcommittee, is a crime (18 U.S.C. § 1001). This form will be made part of the hearing record.



 Witness signature

7/21/19

 Date

Please attach, when applicable, the following documents to this disclosure. Check the box(es) to acknowledge that you have done so.

- ☐ Written statement of proposed testimony
- ☐ Curriculum vitae or biography

*Rule XI, clause 2(g)(5), of the U.S. House of Representatives provides:

(5)(A) Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof.

(B) In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of any Federal grants or contracts, or contracts or payments originating with a foreign government, received during the current calendar year or either of the two previous calendar years by the witness or by an entity represented by the witness and related to the subject matter of the hearing.

(C) The disclosure referred to in subdivision (B) shall include—

- (i) the amount and source of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) related to the subject matter of the hearing; and
- (ii) the amount and country of origin of any payment or contract related to the subject matter of the hearing originating with a foreign government.

(D) Such statements, with appropriate redactions to protect the privacy or security of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.



Grafton H. Willey, IV, CPA
Managing Director

One Citizens Plaza
Providence, RI 02903
401.626.3213
gwilley@cbiz.com

Professional Summary:

Grafton "Cap" is a member of the Tax Group. Prior to joining CBIZ & MHM, he was the Managing Shareholder of Rooney, Plotkin & Willey. Cap has more than 35 years of experience as a tax accountant and consultant to privately-held business owners.

He is an active advocate for small business issues at the state, regional, and national levels, and was twice selected as the Rhode Island Small Business Accounting Advocate of the Year and once as the Small Business Advocate of the Year by the National Small Business Association (NSBA).

Education:

- Bachelor of Science, Syracuse University

Professional Memberships:

- American Institute of Certified Public Accountants
- Rhode Island Society of Certified Public Accountants, Taxation and Legislative Committees
- Massachusetts Society of Certified Public Accountants
- National Small Business Association (NSBA), Past Chair
- Smaller Business Association of New England (SBANE), Rhode Island Chapter Co-Chair
- Financial Accounting Standards Board (FASB), Small Business Advisory Committee 2006-2008
- Providence Chamber of Commerce, Legislative Committee
- Rhode Island Manufacturers Association (RIMA), member

Civic Organizations:

- Providence Rotary Club
- Affordable Rhode Island Coalition
- The Rhode Island Foundation, Professional Advisory Council

Awards and Honors:

- Recipient of the 2016 Rhode Island Society of CPA's Chairman's Award
- Named the 2011 Lewis Shattuck Small Business Advocate of the Year by the National Small Business Association
- Twice selected as the Rhode Island Small Business Accounting Advocate of the Year



Accounting | Tax | Advisory

TAX REFORM

WHAT IT MEANS FOR SMALL BUSINESS



In 2017, Congress passed, and President Trump signed into law, the Tax Cuts and Jobs Act. Here's what the bill included and what it didn't, as well as the remaining reforms that must be addressed.

TAX REFORM REPORT CARD

Tax Reform Provisions	NSBA Rating	Outlook
Permanency of rate reductions and credits/deductions	★☆☆☆☆	Key small-business provisions expire, long-term reform a must-do by 2025
Lowers individual tax rates	★★★★★	Expires after 2025, needs to be made permanent and on-par with corporate rates
Simplify tax administration	★☆☆☆☆	Simplification not addressed for small business, major reform such as Fair Tax required
Full, immediate expensing of capital investments and doubles the Section 179 expensing cap	★★★★★	Expires after 2025, should be permanent
Parity between the tax rates of C-Corps and S-Corps	★☆☆☆☆	Lessened gap, but didn't eliminate disparity between large corporations and small business – full parity needed
Lowers corporate tax rate from 35 percent to 21 percent	★★★★★	Permanent, impacts less than 17 percent of small businesses
Small business tax deduction of 20 percent for certain pass-through business income	★★★★★	Expires after 2025, needs fix to achieve permanency and parity with corporate rates
Reduce the deficit	★☆☆☆☆	Major spending cuts needed to balance cuts in revenue – resulting economic growth not enough
Doubles estate tax exemption to \$10 million	★★★★★	Expires after 2025, should be fully repealed
Raises AMT exemption and increases the phase-out threshold to \$1 million	★★★★★	Expires after 2025, should be fully repealed
Bonus depreciation increased to 100 percent	★★★★★	Phase-down starts 2024, should be made permanent
Preserves the R&D tax credit	★★★★★	R&D expenses to be amortized after 2021, should be permanent

At the end of the day, NSBA supported the Tax Cuts and Jobs Act—not because it was perfect, but because it was a good start. Lawmakers still have heavy lifting to do, including tax simplification, parity in taxation between large and small businesses, doing away with sunsets and making tax reform permanent, and addressing the deficit.



Todd McCracken
President and CEO
NSBA

KEY

NSBA SUPPORTED, BILL FULLY ADDRESSED



NSBA SUPPORTED, BILL DIDN'T GO FAR ENOUGH



NSBA SUPPORTED, NOT A PRIORITY



PROVISION NOT FULLY ADDRESSED BY TAX CUTS AND JOBS ACT



PROVISION EXCLUDED IN TAX CUTS AND JOBS ACT



Please visit www.nsba.biz/tax for NSBA's detailed position statements and issue briefs.



NSBA'S PRINCIPLES FOR TAX REFORM

Even with the reforms in the Tax Cuts and Jobs Act, more must be done to ensure simplification, fairness and long-term sustainability.

1. Designed to tax only once
2. Stable and predictable
3. Visible to the taxpayer
4. Simple in its administration and compliance
5. Promote economic growth and fairness between large & small businesses
6. Use commonly understood finance/accounting concepts
7. Grounded in reality-based revenue estimates
8. Fair in its treatment of all citizens
9. Transparent



60% of small businesses say administrative burdens **ARE A BIGGER PROBLEM** than the financial cost of federal taxes



83% of small firms are **pass-through entities**



1-in-3 small businesses spend **more than \$5,000** on just the administration of federal taxes



68% of small firms use an external tax practitioner

Just 10% of small firms anticipate filing taxes under the Tax Cuts and Jobs Act will be easier.

The majority of small businesses say taxes have a



moderate-to-significant impact on the day-to-day operation of their business.

The National Small Business Association is the country's longest running small-business organization, operating on a staunchly nonpartisan basis with more than 65,000 small-business members.

2019 -- H 5576

LC001711

STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2019

A N A C T

RELATING TO TAXATION -- BUSINESS CORPORATION TAX

Introduced By: Representatives Shekarchi, Ackerman, Lima, Kazarian, and NoretDate Introduced: February 27, 2019Referred To: House Finance

It is enacted by the General Assembly as follows:

- 1 SECTION 1. Chapter 44-11 of the General Laws entitled "Business Corporation Tax" is
 2 hereby amended by adding thereto the following section:
- 3 44-11-2.3. Pass-through entities -- Election to pay state income tax at the entity level.
 4 (a) Definitions. As used in this section:
 5 (1) "Election" means the annual election to be made by the pass-through entity by filing
 6 the prescribed tax form and remitting the appropriate tax.
 7 (2) "Net income" means the net ordinary income, net rental real estate income, other net
 8 rental income, guaranteed payments, and other business income less specially allocated
 9 depreciation and deductions allowed pursuant to § 179 of the United States Revenue Code (26
 10 U.S.C. § 179), all of which would be reported on federal tax form schedules C and E. Net income
 11 for purposes of this section does not include specially allocated investment income or any other
 12 types of deductions.
 13 (3) "Owner" means an individual who is a shareholder of an S Corporation; a partner in a
 14 general partnership, a limited partnership, or a limited liability partnership; a member of a limited
 15 liability company, a beneficiary of a trust, or a sole proprietor.
 16 (4) "Pass-through entity" means a corporation that for the applicable tax year is treated as
 17 an S Corporation under I.R.C. 1362(a) (26 U.S.C. § 1362(a)), or a general partnership, limited
 18 partnership, limited liability partnership, trust, limited liability company or unincorporated sole
 19 proprietorship that for the applicable tax year is not taxed as a corporation for federal tax

1 purposes under the state's regulations.

2 (S) "State tax credit" means the amount of tax paid by the pass-through entity at the entity

3 level which is passed through to an owner on a pro rata basis.

4 (b) Elections.

5 (1) For tax years beginning on or after January 1, 2019, a pass-through entity may elect to

6 pay the state tax at the entity level at the rate of five and ninety-nine hundredths percent (5.99%).

7 (2) If a pass-through entity elects to pay an entity tax under this subsection, the entity

8 shall not have to comply with the provisions of § 44-11-2.2 regarding withholding on non-

9 resident owners. In that instance, the entity shall not have to comply with the provisions of § 44-

10 11-2.2 regarding withholding on non-resident owners.

11 (c) Reporting.

12 (1) The pass-through entity shall report the pro rata share of the state income taxes paid

13 by the entity, which sums will be allowed as a state tax credit for an owner on his or her personal

14 income tax return.

15 (2) The pass-through entity shall also report the pro rata share of the state income taxes

16 paid by the entity as an income (addition) modification to be reported by an owner on his or her

17 personal income tax returns.

18 (d) Net taxable income for purposes of this subsection shall be calculated in accordance

19 with § 44-11-2.4(a)(3), subject to applicable apportionment rules for businesses operating in

20 multiple states.

21 (e) State tax credit shall be the amount of tax paid by the pass-through entity, at the entity

22 level, which is passed through to the owners, on a pro rata basis.

23 (f) A similar type of tax imposed by another state on the owners' income paid at the state

24 entity level shall be deemed to be allowed as a credit for taxes paid to another jurisdiction in

25 accordance with the provisions of § 44-30-18.

26 (g) "Combined reporting" as set forth in § 44-11-4.1 shall not apply to reporting under

27 this section.

28 SECTION 2. This act shall take effect upon passage.

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63

EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF
A N A C T
RELATING TO TAXATION -- BUSINESS CORPORATION TAX

1 This act would provide for a pass-through entity tax to shift the income tax liability from
2 an entity's owner to the entity itself. The tax would be deductible by the entity thereby helping to
3 offset the effect of the ten thousand dollar (\$10,000) limit on an individual's state and local tax
4 (SALT) deductions by reducing their share of overall allocable income.

5 To ensure against double taxation, the act would provide owners with a tax credit to
6 offset the tax on their share of the entity's after pass-through entity tax income.

7 This act would take effect upon passage.

LC001711

RI House Finance Committee

2019 H 5576

Pass-Through Entities Proposal

Testimony of Grafton "Cap" Willey, IV

May 1, 2019

My name is Grafton H. Willey, IV but most people know me as Cap Willey. I represent the RI Society of CPA's, the RI Business Coalition and the Providence Chamber of Commerce on this legislation.

I am entitling my testimony as Pass-Through Taxation for Dummies with no offense meant to the Committee members. Taxation can be complex which is why I have a job. Hopefully I can explain this for the non-professional. This legislation is unique in proposals before your Committee in that it is revenue neutral to the State and could help many RI small business in reducing their Federal income taxes.

As most of us are aware the Trump Tax Reform which took effect for 2018 limits the deductions for state and local taxes for individuals to \$10,000 which has hurt many high tax states like RI. Many of you may have realized that as you prepared your 2018 income taxes this year.

Tax Reform does allow for the deduction of State and Local taxes assessed on business income if paid by the business entity. C-Corporations can deduct state and local taxes in determining their taxable income without a problem.

Most small businesses in RI operate as pass-through entities, primarily because of the single level of tax on an exit versus a C-Corp that would pay a double tax on a sale, one at the corporate level and another at the individual level.

Pass-through entities do not pay taxes at the entity level, they pass their income down to the owners who pay individual taxes on their personal returns. The State income taxes of a pass-through paid by the individual would be limited to the \$10,000 which would include other state and local taxes such as real estate taxes. Most small business pass-through's would not get the benefit of the federal deduction for the state business income taxes. This sets up a parity issue for pass-through's. C-Corporations (usually big businesses) get the deductions for state and local income taxes while S-Corporations and other pass-through would not get a deduction.

This legislation would allow a pass-through entity to elect to pay the state income tax at the entity level the same as a c-Corporation and deduct it from the Federal income that is passed to

the owners. The net benefit is that it allows the pass-through entity to be treated the same as the larger C-Corporation on their income which is only fair.

From the State's perspective this should be revenue neutral. The State will collect the same amount from the individual or the pass-through as it would before the legislation. It provides the pass-through with the ability to get a Federal tax deduction for the payment of the state income taxes on the business income which should help many small businesses.

It also helps the State in its collection efforts by having the entity pay the state taxes and not having to chase all of the individual owners on their personal returns. It also eliminates the need to have only the non-resident owners have withholding taken out of their income distributions.

It should be a win-win for the State and for the pass-throughs.

There is a possibility that the IRS might fight this approach. They have disallowed the deductions for real estate taxes reclassified as charitable contributions which does not work legally. This legislation is effective for years beginning in 2019. Connecticut has passed somewhat similar legislation effective for 2018 so we will have an opportunity to see if this survives any IRS attack. So far the IRS has not seemed to have found a way to attack it. Our fallback position if faced with an adverse decision would be to have the State of RI not recognize pass-throughs for state income tax purposes, assess the tax at the entity level and exclude the income from RO taxes. This approach might be a little more difficult to make revenue neutral.

As stated above, Connecticut has passed similar legislation. Wisconsin has a new law effective for 2019. Oklahoma just signed their similar law this week which looks like it is modeled after our proposal. There are proposals in Arkansas and Michigan under consideration. I have been in contact with the US House Ways & Means Chairman recently to see if this can be corrected on a Federal level and they are interested in looking at it. The problem there is whether or not anything can be passed in Washington under the current political environment. In the meantime we should see what we can do in RI to help RI small businesses. I strongly urge that you pass this legislation.

Respectfully Submitted:

Grafton H. Willey, IV

Feb. 27, 2019

MRW

Majority Leader Shekarchi at (401) 827-0100

Shekarchi files bill to protect small businesses hurt by Trump's tax changes

STATE HOUSE – House Majority Leader K. Joseph Shekarchi has introduced legislation to help the many Rhode Island small business owners who will be hit by higher federal taxes under President Trump's new tax laws.

The bill will provide a work-around for owners of "pass-through" entities whose state and local taxes exceed the new \$10,000 cap on the state and local tax (SALT) deduction on their federal tax returns. The effort, which is based on a similar bill enacted in Connecticut in May, is carefully designed to pass IRS muster and be revenue-neutral for the state.

"This is a way to help Rhode Island small businesses at no cost to the state. Our small businesses are the backbone of our economy, and face enough challenges without being saddled with new tax burdens by President Trump's tax plan. We've found a viable method to help their owners get credit for the taxes they already pay, so their businesses are not disrupted, forced to make cuts to their workforce or worse, to close," said Leader Shekarchi (D-Dist. 23, Warwick). "My goal here is to prevent the Trump tax plan from hurting small businesses, so they can thrive here in Rhode Island."

Since 1913, federal taxpayers have been allowed to deduct the full amount of their state and local taxes from their federal taxable income under the SALT deduction. However, the Tax Cuts and Jobs Act, pushed by President Trump and passed by Congress in December 2017, now limits the SALT deduction to \$10,000 for tax years 2018 through 2025. This could add up to a significant increase in tax liability for many taxpayers across the nation and in Rhode Island.

In Rhode Island, 33 percent of filers use that credit, and, on average, they claimed \$12,434 in 2015, according to research by Pew Charitable Trusts. The organization lists Rhode Island as one of 19 states where the average SALT credit exceeds the new \$10,000 cap.²

The legislation allows pass-through entities, such as limited liability companies (LLCs) and S corps, to pay the federal tax on their own income, instead of passing it along to their partners to claim on their personal income tax returns, as is the usual practice. The bill also allows a credit the partners can take on their personal and corporate state income tax returns to ensure that the business's income isn't taxed twice. If passed, the changes would take effect for the 2019 tax year.

Leader Shekarchi developed the bill with the help Grafton "Cap" Willey IV, a prominent Providence CPA, who approached Leader Shekarchi with an idea brought to him by a fellow member of his Rotary Club.

"This bill will help small businesses, most of whom report their taxes as pass-through entities, by having the business entity pay the taxes on the business income and allowing a federal income tax deduction – which might have been limited if reported on the owner's personal income tax returns," said Willey. "Regular C-Corporations get this benefit, and this bill would put the pass-through entities on an equal footing with big businesses."

Leader Shekarchi introduced the bill in the House of Representatives Tuesday.

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WRITTEN STATEMENT**BEFORE THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON
SMALL BUSINESS****HEARING ON****“IS THE TAX CUTS AND JOBS ACT A HELP OR HINDRANCE TO MAIN
STREET?”****JULY 24, 2019****MUNEER BAIG****SYSUSA, INC.**

Chairwoman Velazquez, Ranking Member Chabot and fellow members of the Committee. I would like to start by thanking you for inviting me to speak with you today about the impact of the 2017 Tax Cuts and Jobs Act on my and other small businesses.

I am the Founder & CEO of SYSUSA, Inc., a HUBZone Certified Women- and Minority-Owned Small Business based in Manassas, Virginia. SYSUSA leadership brings together decades of expertise in information technology (IT) and information security solutions and services. SYSUSA's highly skilled and experienced professionals have the necessary knowledge and global expertise to help both the private and the public sector build and maintain 21st century resilient and high performing business enterprises. We specialize in cyber-security, governance, risk management, compliance, IT modernization and transformation, IT managed services, ISO training and certification, project and program management, and strategic consulting services.

SYSUSA serves clients across industries, including healthcare, education, cloud services, financial, hospitality, retail, nonprofit and utility industries. We also have a small footprint in the government sector where we are working very hard to tap into opportunities and grow to be the next big business.

In addition to owning my own small business, I am an advocate for the small business community who has taken the opportunity to speak at many forums and events. I am also one of the 58,000 entrepreneurs in Small Business Majority's network and I am an active member of the Prince William County Chamber of Commerce. As a result of my involvement, I am aware of the daily struggle many in our small business community experience and can speak to more than just my own challenges. Based on my own experience and on conversations with other small employers like me, I can say with confidence that small businesses need more than just short-term benefits. They need a long-term, sustainable strategy for growth.

Although the Tax Cuts and Jobs Act is providing a very small percentage of small businesses with short-term relief, unfortunately that relief is not adequate enough to deliver upon the promises that were made when this legislation was marketed to the American public.

Although it was billed by President Donald Trump as a “[h]istoric small-business tax cut” that will be “really, really good for the business owner” and enable small firms to hire more employees. Unfortunately, the Tax Cuts and Jobs Act has failed to deliver upon its promise for the overwhelming majority of Main Street small businesses, including mine to create more jobs.

The first problem I have with the Tax Cuts and Jobs Act is that I had to consult extensively with my accountant in order to make sure I was up to speed with all the relevant provisions of the Act. I also saw an uptick in the amount of information I had to provide in my tax return. This additional work increased the fees my business had to pay our accountant from the usual \$600 to \$700 per year in the past, to spending \$2,000 on tax preparation for this year. Just to be in compliance with the Tax Cuts and Jobs Act ultimately cost me valuable time and a lot of money, which increased the burden on my small business.

The second problem I have with the Tax Cuts and Jobs Act is that it did nothing to address pre-existing burdens in the tax code that make it harder for small businesses like mine to hire additional employees. Under the current tax code, I get penalized for growing. Every time I want to add a new employee my tax burden increases, and on top of that I have to pay my accountant more money after I take on a new hire. Maybe the Tax Cuts and Jobs Act should be renamed the Tax Cuts and Accounting Jobs Act.

The third problem I have with the Tax Cuts and Jobs Act is that it didn’t save me or most other small business like me the money it promised to save us. My business is a very small S-Corporation. The Tax Cuts and Jobs Act is not designed to help very small businesses like mine. Our revenue was about \$500,000 last year, which is actually above average nationally: Most U.S. small businesses earn less than \$400,000¹ in revenue annually. This year we’re on track for about \$1.5 million in revenue, and in that case, I may see some tax savings. But I shouldn’t have to triple my earnings to see benefits from a tax cut that was supposed to help small businesses.

Part of the reason I did not save much money last year is that the Tax Cuts and Jobs Act doesn’t offer many incentives to help firms in my sector of the economy. While there are deductions available for manufacturing businesses that buy new

¹ U.S. Census Bureau 2014 Annual Survey of Entrepreneurs:
<https://www.smallbizlabs.com/2016/10/most-small-businesses-have-less-than-400000-in-annual-revenue.html>

equipment, I'm in the service industry and my tools are laptops and phones. We can't take significant deductions for those items.

While my experience with the Tax Cuts and Job Act is negative, it would be inaccurate to say the new law has not helped a single small business. It has helped some. I have spoken to many businesses in my locality, including a distillery that benefited from the reduction in Federal Excise Tax included in the Tax Cuts and Jobs Act. The problem for small businesses like this one, however, is they may be heading toward a crisis even though they saved money.

Unlike many of the large corporations that used their savings from the Tax Cuts and Jobs Act to buy back shares and increase the value of their business, most small businesses experiencing a decreased tax burden are using their savings to reinvest in their business. This is by no means a bad thing. The problem, however, is the **temporary** nature of some of the new deductions. Since most of the Tax Cuts and Jobs Act provisions helping small businesses are set to expire in the next year and a half, businesses that are investing their savings now may not have extra cash in two years to finish the projects they started. This could result in a total loss of their investment.

In order to make the tax code work for Main Street small businesses, I have the following recommendations:

- Replace the Tax Cuts and Jobs Act's pass-through component with a provision allowing small businesses to deduct their first \$25,000 in business income, whether or not they file their tax returns as a pass-through entity or as a C-Corporation. This approach will provide income tax benefits to the vast majority of small enterprises, allowing them to generate enough savings to hire new employees, invest back into their businesses and make operational improvements.
- Raise revenue by closing inefficient corporate loopholes that put small businesses at a competitive disadvantage and add to the deficit. The savings would more than pay for the pass-through tax recommendation above. Loopholes include:
 - International tax policies that allow large multinational corporations to pay tax on money earned abroad at half the tax rate for a domestic business profits-an option not available to most small businesses.
 - Carried interest, which benefits hedge fund managers by allowing them to pay taxes on ordinary income at special lower capital gains rates.
 - Accelerated depreciation that reduces revenues primarily to benefit large businesses. Small businesses that are able to deduct up to \$1 million on capital expenditures via Section 179 of the tax code do not benefit from the far greater accelerated depreciation used by large corporations.

- Reintroduce and enact the Protecting Taxpayers Act, which would streamline tax reporting for small businesses. Some of this bill's small business provisions include the following:
 - Create a safe harbor for employer-only tip audits and clarify reporting requirements for tip income.
 - Realign the quarterly reporting of estimated tax payments for small businesses.
 - Release federal tax liens of businesses in the event of economic hardship.
 - Allow retirement plan administrators to self-correct inadvertent plan violations.

Create small business opportunities through tax credits and incentives

- Create tax incentives for workforce development. My employees are constantly in need of training, but training can cost \$2,500 and take up to one week. I can't afford to pay that fee or be down a worker for days at a time, but tax savings would make it much easier for me to accept those short term losses if they are offset by a long-term gain.
- Make the New Markets Tax Credit permanent. This tax credit, which is set to expire at the end of 2019, has helped attract more than \$60 billion in private-sector funding to build businesses in economically distressed communities across the United States.
- Pass healthcare tax equity for the self-employed so that freelancers can deduct their healthcare expenses from their FICA tax obligations—just like other business entities. Healthcare is among my biggest expenses, so anything that would reduce the cost of providing that essential benefit to my employees would benefit my business.

In conclusion, I am concerned about the long-term impact of the Tax Cuts and Jobs Act. It increases the deficit by \$1.9 trillion in order to dramatically lower the rates for large corporations and the very wealthy while offering very little benefit for Main Street small business owners like me. Additionally, the cuts for pass-through entities are structured in a way that gives the majority of benefits to the largest 2.6 percent of pass-through business entities.

If policymakers are serious about wanting to level the playing field for small businesses and drive our economy from the bottom up, they need to implement policies that will help all entrepreneurs, rather than giving tax breaks to those who need it least.

Thank you again for the opportunity to share my story. I look forward to your questions.

Prepared Testimony and Statement for the Record of
Justin Conger, Owner, Conger Construction Group

On Behalf of the Warren County Chamber Alliance

Statement for the Record
Before the

Committee on Small Business
United States House of Representatives

Hearing on the Tax Cuts and Jobs Act (TCJA)

July 24, 2019

2360 Rayburn House Office Building
Washington, DC

Chairwoman Velazquez and Ranking Member Chabot, and members of the committee, I'm honored for the opportunity to testify before the committee today on how the Tax Cuts and Job Acts helps Small Businesses.

My name is Justin Conger, 2nd generation Owner and President of Conger Construction Group. On behalf of Conger Construction Group, Inc., our employees, our clients, 4700 small businesses, and approximately 109,8115 employees I represent as a member of the Warren County Chamber Alliance, thank you for the opportunity to submit this statement for the record before the Committee on Small Business' hearing entitled *"Is the Tax Cuts and Jobs Act a Help or Hinderance to Main Street."*

Not only am I a 2nd generation Business Owner and entrepreneur, I am the current Board Chair of the Workforce Investment Board of Butler, Clermont, and Warren Counties overseeing Ohio Area 12 and the utilization of its WIOA Funds. I also serve as Board Chair of The Associated Builders & Contractors (ABC) of Ohio, and a Board Member of the JobsOhio regional REDI Cincinnati Board. I list these organizations and my participation in them not as personal recognition, but to provide context and to attest to my qualifications as I present this testimony. I bring a unique perspective on the positive impact local, state, and federal tax policy has on our small businesses. I appreciate the House of Representatives' Committee on Small Business' continued attention to how tax policy, specifically the Tax Cuts and Jobs Act (TCJA), impacts small businesses.

The portion of the Tax Cuts and Jobs Act (TCJA) that impacts Conger Construction Group most deeply is the provision that lowered the federal corporate tax rate to a flat rate of 21%. Founded in 1992 by my father Larry Conger, we were established as a Closed Corporation or "C Corp" due to the nature of commercial construction and associated risk. Under the Tax Cuts and Jobs Act (TCJA) the much-needed savings provides more capital to re-invest in our business to and our employees.

From 2016 until 2018, I am proud to say our business has grown 110%! This growth would not be possible without the Tax Cuts & Jobs Act of 2017. Our commercial construction company is located in southwest Ohio and 100% of our revenue is generated from projects within a 100-mile radius of our office located in Lebanon, Ohio. In the Southwest Ohio 16 county MSA there are currently over \$2.5 Billion in active construction projects. This uptick in commercial construction activity has increased dramatically in the past 18 to 20 months due to the passage of the Tax Cuts & Jobs Act of 2017. Leading indicators, like the Architectural Billings Index, suggest this trend will continue well into the future. In general terms, construction is a lagging indicator of the economy. If our clients or other businesses are not growing, expanding, or re-investing in their facilities, there is no need for commercial construction services. There is a lot of work to be completed before a project can start; from an owner obtaining financing, to architectural drawings being completed, to regulatory approval from local jurisdictions. Businesses all over Ohio are growing and expanding by utilizing the benefits of the Tax Cuts & Jobs Act of 2017 and reinvesting additional generated capital into their businesses. In talking with past, future, and current clients, over 80% indicate the reason for their investment in construction services is due to the economy and current tax structure.

The economic expansion provides growth opportunities for Conger Construction Group and hundreds of subcontractors, suppliers, vendors and their employees. We only self-perform (or complete) about 10 to 15% of our work with our own forces, meaning 85 to 90% of our work is subcontracted out. These subcontractors and their employees are feeling the benefits of a robust economy. In some ways commercial construction has a waterfall effect. Conger Construction Group is experiencing economic growth and prosperity and so are thousands of other front-line workers employed by our partners/subcontractors. Continued economic expansion is providing increases in wages never before seen in my 18 years in business. All of which is great for the American economy.

Conger Construction Group is a prime example of one of the many businesses across the country growing and expanding by utilizing the benefits of the Tax Cuts & Jobs Act of 2017 and reinvesting in their businesses. As I mentioned previously we have grown 110%! As a business owner, entrepreneur, and community leader I am proud of this growth over the past three (3) years, but I am even more proud of how we have grown our culture and employee base. Since 2016 we have almost doubled our employee head count, from 28 full time equivalents (FTEs) to 48 FTEs, and we are continuing to grow and add staff. In the past year and half wages have increased by over \$1,500,000 for our non-ownership employees! Furthermore, due to the Tax Cuts & Jobs Act of 2017 we have paid out over \$381,000 in bonuses to those same employees in 2017 & 2018!

As a business owner, I believe I have a responsibility not only to support my family but to support the families of our workers. With record low unemployment, finding talented workers to fill open jobs is harder than ever. From my experience on the Workforce Investment Board there is a workforce shortage of epic proportion. If businesses want to continue to grow they must take care of their employees, both personally and financially. We are utilizing the Tax Cuts & Jobs Act of 2017's decrease in corporate tax rate from 35% down to 21% to grow wages of our front-line employees. We are not only growing our business, we are providing our employees a pathway to sustained economic stability for themselves and their families. In today's economy and unemployment in Warren County Ohio at 2.8%, we are PROUD of our ability to not only double the number of employees we are providing jobs for, but we are growing their income level and supporting families. These employees and their families are the ones buying goods and services throughout our country, traveling with their families, and re-investing in America.

Most people think of construction is a low paying "dirty" job that doesn't require much of an education or skill set. This couldn't be further from the truth. Construction provides hundreds of thousands of workers an opportunity to start a career with lifetime employment as a skilled trades

professional. I am fortunate to have two employees who started out earning \$14.00 and \$17.40 per hour who continued to learn, grow their skill set, and work their way up through our organization. Today both of these individuals are earning over \$125,000 a year and are helping lead our organization. They have grown and moved into comfortable middle class living. This sort of growth isn't possible without economic expansion facilitated by a lower tax burden on the employer. The streamlined tax code is not only having a positive impact on businesses but on average Americans working on the front lines.

In today's business climate with low unemployment and increased opportunities, it's important for businesses of all sizes to constantly re-invest in their business. Conger Construction Group is no different. Due to the Tax Cuts and Jobs Act, we have recently been undergoing a complete renovation and expansion of our own headquarters. We are utilizing the lower tax rate on closed corporations to improve our facility and provide a working environment that will enable us to better serve our clients and our employees. We are re-investing in ourselves! We are not just taking the savings in tax rates and putting it in our ownership's pockets. We are re-investing and providing more opportunities for our employees, our subcontractors, and our suppliers. This is what being a small business owner is all about in America!

Another aspect that is potentially even more impactful than the decrease in tax rate, is the ability to accelerate depreciation of our investments into our company. Outside the renovation of our facility, we have budgeted capital expenditures of \$500,000 for calendar 2019. Although the net impact over time is a wash, the ability to expense these investments rather than depreciating them over 5 or 7 years provides us with an additional \$100,000 of cash in 2019. This is often the most critical item for a growing company. With increased receivables, inventory and work in process, a growing business requires significant cash.

As part of my testimony and involvement in the Warren County Chamber Alliance I would like to submit additional letters of support from other small

businesses in Warren County, Ohio who are leveraging the Tax Cuts and Jobs Act to grow their businesses, grow their employees, and grow the American Economy. These letters affirm the Tax Cuts and Jobs Act has been a help to Main Street Ohio!

Thank you,

Justin Conger
President, Conger Construction Group

Thank you, Madam Chair. This committee plays a critical role in the success of our nation's small businesses as well as our nation's economy. According to the Small Business Administration's 2018 Economic Profile Report, 99.9 percent of businesses in the United States are considered to be small businesses. For my home state of Ohio, there are nearly 950,000 small businesses, employing more than 2 million people. Last year, Ohio's small businesses produced \$10 billion in revenue, which funnels straight into our economy. Needless to say, small businesses are vital to our country's prosperity.

Since joining Congress, I have made it a point to engage with and support the small business community in central Ohio. I have organized a Small Business Advisory Committee for the 12th District so I may better serve these hardworking pillars of our community.

In my time as a member of this Small Business Committee, we have examined various ways Congress can help our nation's small businesses. Specifically, we have heard from witnesses about what we need to do to expand rural broadband capabilities, the challenges our nation's veterans face in starting small businesses when they return home, and the effects of student loan debt has on our country's entrepreneurs.

In my conversations with my constituents and small business owners in Ohio, however, I have heard seemingly endless stories about the benefits of a single piece of legislation: the Tax Cuts and Jobs Act.

Just this past week, I had the pleasure of meeting with a group of small business owners from across Ohio, including several from my district in central Ohio. The individuals in this group work in an array of industries, from auto parts dealers to manufacturers. And in this meeting, each and every one of these small business owners reiterated how beneficial the Tax Cuts and Jobs Act has been to their small business and its employees.

With the enactment of the Tax Cuts and Jobs Act, employers were able to give their staff more money in each paycheck. Employers have also been able to provide better healthcare options. And the Tax Cuts and Jobs Act has created job opportunities by enabling these small business owners to hire more staff.

One such example that I'd like to highlight is a constituent of mine and a member of my Small Business Advisory Committee, Kelly. Kelly is the Vice President of GKM Auto Parts in my hometown of Zanesville. In 2016, Kelly had to pull the plug on providing healthcare benefits to her employees because the "Affordable" Care Act was not indeed affordable for many

small businesses. In her words, “the ACA drove [our] premiums through the roof”, making it impossible for her to offer her employees a decent health plan.

In anticipation of the Tax Cuts and Jobs Act passing Congress and being signed into law by President Trump in 2017, Kelly and her business opted to once again offer medical insurance to her employees with a 60/40 split in premiums. For her, this was solely possible due to the financial savings the Tax Cuts and Jobs Act produced for her business.

In addition to health benefits, GKM Auto Parts was able to give raises to staff who had not seen a salary increase in 3 years.

Kelly was adamant in telling me that absolutely none of the tax benefits her small business received as a result of the Tax Cuts and Jobs Act went into her pockets as the owner. Instead, this money was given directly to her employees through pay bumps and health benefits.

I have also spoken with small business owners about how the Tax Cuts and Jobs Act has resulted in their ability to expand staff. This job creation profoundly affects not only the small business itself, but to the community as a whole. In my home of Muskingum County, the unemployment rate has been cut in half since the enactment of the Tax Cuts and Jobs Act, now sitting at

3.7 percent. Similarly, the unemployment rate in the United States has dropped to 3.6 percent – the lowest it’s been since 1969. To put that figure into perspective, that was the same year Ohioan Neil Armstrong first stepped foot on the Moon.

Finally, and perhaps hitting closest to home, the family of a member of my own staff has been positively impacted by the passage of the Tax Cuts and Jobs Act. Her parent’s business, Mansfield Distributing Company, has been able to increase the pay for their employees by \$30 per week. Now, that might not sound like a lot to some folks, but when you multiply that amount by 52 weeks, that’s an increase of \$1,500 each year. These employees have used this money to make home improvements, buy a new car, and support other local small businesses.

As a member of this Committee, I will continue to work in support of the small businesses of Ohio and around the country. We still have much work to do, but I am committed to serving my constituents in the Ohio 12th District who either own, operate, or are employed by small businesses.

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

CHRISTEL SLAUGHTER, PH.D., CHAIR
SMALL BUSINESS COUNCIL
TOM SULLIVAN, EXECUTIVE DIRECTOR
SMALL BUSINESS COUNCIL

July 23, 2018

The Honorable Nydia Velazquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Steve Chabot
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Re: July 24 Hearing entitled, "Is the Tax Cuts and Jobs Act a Help or Hindrance to Main Street"

Dear Chairwoman Velazquez and Ranking Member Chabot:

Thank you for scheduling tomorrow's hearing examining how the passage of the Tax Cuts and Jobs Act of 2017 has benefitted small businesses.

I am Christel Slaughter, Ph.D., CEO of SSA Consultants based in Baton Rouge, Louisiana and I serve as Chair of the U.S. Chamber of Commerce's Small Business Council. The Chamber is the world's largest business federation. It represents the interests of over three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. 96% of Chamber member companies have fewer than 100 employees and 75% have fewer than 10. The Small Business Council works to ensure the views of small business are considered as part of the Chamber's policy-making process.

Examples of Positive Impact from Tax Cuts:

The Small Business Council met shortly after the release of the MetLife & U.S. Chamber of Commerce Small Business Index for the first quarter of 2018.¹ The findings of our quarterly survey reflected a confidence in the direction of the national economy and showed that 66.3% of small business owners had a positive outlook about their company and the small business environment in the United States. Most importantly, for the purposes of this Committee's hearing, small

¹ Findings from an Ipsos poll of 1,000 small business owners and operators conducted by phone between January 8 and January 25, 2018. Results may be found at: https://www.uschamber.com/sbindex/SBI_2018_Q1.pdf.

business owners were twice as likely to think tax reform would help their business than those who thought it would hurt. That confidence continued, as our subsequent Small Business Index climbed to 68.7, reflecting that two out of every three small business owners were optimistic about their company and the small business environment.²

At our meeting in March of 2018, several of my fellow Small Business Council members discussed their plans to reinvest savings realized from the Tax Cuts and Jobs Act:

Melissa Bercier, founder of Couch Clarity, a private psychotherapy practice near Chicago, explained how tax cuts gave her an opportunity to provide team building and professional development for her 10 staff. Melissa calls her reinvestment strategy, “helping the helper.” The strategy had a positive domino effect because Couch Clarity’s two locations help people in the community and a happy Couch Clarity staff means a happy community.

David Mahoney is the President and CEO of Noble Gas Solutions in Albany, New York, a gas distribution and welding supply company with 33 full-time and three part time employees. David explained how difficult it was getting through the recession, with Noble Gas Solutions experiencing a 15% decline in revenue and an eight-year business drought without experiencing additional sales in upstate New York. He told me that last year, the economy in the North East finally rebounded and his sales came up 10%. The tax cuts allowed David to raise wages and prompted him to plan for hiring new staff, a luxury he could not afford for the past several years.

Melissa’s and David’s examples of how they reinvested tax cut savings to provide higher salaries and increased benefits for their employees were echoed by small businesses throughout the United States over the past 18-months.³

In my small business, our employees are taking home more of their earnings and many of our clients have benefitted from the Tax Cuts and Jobs Act. Our organizational consulting firm saw an increase in business last year. Our clients are doing well and they want to remain competitive by working with us on strategic planning and making sure they retain their talented employees in this tight labor market.

² Findings from an Ipsos poll of 1,000 small business owners and operators conducted by phone between March 22 and April 23, 2018. Results may be found at: https://www.uschamber.com/sbindex/SBI_2018_Q2.pdf.

³ See a map of businesses that reinvested tax cut savings at: <https://www.uschamber.com/tax-reform>.

Improvements Needed for Tax Reform to Have an Even Greater Positive Impact:

While we are extremely appreciative of the lower rates made possible by the Tax Cuts and Jobs Act, the rate reduction for pass-throughs is set to expire after 2025. We applaud the bipartisan leadership of Reps. Henry Cuellar and Jason Smith for their legislation, H.R. 216, the Main Street Certainty Act, that would make the small business tax cuts permanent. This bill is an important step in the right direction.

Finally, we want to applaud your introduction of H.R. 593, the Small Business Owners' Tax Simplification Act of 2019. The bi-partisan legislation introduced by you, as leaders of the Small Business Committee, has already earned support from our Small Business Council Members, the National Association for the Self-Employed (NASE) and the National Automatic Merchandising Association (NAMA). The U.S. Chamber of Commerce joins our association partners in support of the bill because of the positive impact it would have on the small business community. Simplifying the tax code, allowing self-employed to deduct certain health insurance costs for self-employment tax purposes, and allowing entrepreneurs to participate in cafeteria benefit plans are all ways to maintain and grow the record-high levels of confidence that Main Street small businesses are experiencing.

We look forward to working with you on ways to improve the tax code through legislative action and we appreciate your attention to the ongoing benefits of the Tax Cuts and Jobs Act for the small business community by scheduling tomorrow's hearing. Please do not hesitate to contact Tom Sullivan, who heads our Small Business Council, if you have any questions.

Sincerely,



Christel Slaughter, PhD
CEO
SSA Consultants
Baton Rouge, Louisiana



July 26, 2019

The Honorable Nydia Velázquez
 Chairwoman, House Small Business Committee
 2361 Rayburn House Office Building
 Washington, DC 20515

The Honorable Steve Chabot
 Ranking Member, House Small Business
 Committee
 2069 Rayburn House Office Building
 Washington, DC 20515

Dear Chairwoman Velázquez and Ranking Member Chabot,

Heritage Action for America is a nationwide grassroots organization with a membership totaling more than 500,000 Americans. We are writing to you with regards to the July 24th Small Business Committee hearing, "Is the Tax Cuts and Jobs Act a Help or Hindrance to Main Street?" Specifically, we believe there is ample evidence that the *Tax Cuts and Jobs Act* (TCJA) is helpful to small businesses and have provided the following information and real life examples to support that conclusion.

Benefits for Small Businesses

- The tax cuts contributed to the strong economy we have been enjoying, leading many businesses to hire additional workers. The United States added more than 2.6 million new jobs the year after the passage of the TCJA.
- The decrease in individual tax rates, paired with the increase of the standard deduction, has allowed hard-working taxpayers to keep more of their paychecks; increasing the amount they can spend at small businesses.
- Unemployment is at historic lows, there are more job openings than people looking for work, and wages have grown more than 3% for 10 straight months (as of June 2019).
- The TCJA expanded expensing for small businesses by raising the cap on eligible investment from \$500,000 to \$1 million and increased the phase-out amount from a \$2 million cap to a \$2.5 million cap on total equipment purchases.
 - Expanding expensing for small businesses has made it easier for individuals to start a business and for existing businesses to upgrade and expand their operations.

Examples of Small Business Prosperity Stemming from the TCJA

- **Mississippi**
 - Kevin-Charles Furniture (New Albany, Mississippi) - Provided a 5 percent employee pay raise and made new facility investments.
 - Treppendahl's Super Foods (Woodville, Mississippi) - Provided employee raises, made facility upgrades, expanded product selection, and enabled them to begin developing a plan to upgrade checkout lanes and purchase new equipment.



- **Ohio**
 - Tri-State Trailer Sales, Inc. (Hubbard, Ohio and Cincinnati, Ohio) – Increased their 401(k) match for employees to 100% on the first 4% of compensation.
 - Wolf Metals (Columbus, Ohio) – Enabled the purchase of new equipment.
 - Bruns General Contracting (Tipp City, Ohio) – Enabled additional investment in equipment and allowed them to enhance retirement benefits.
- **Oklahoma**
 - AAON (Tulsa, Oklahoma) – Provided \$1,000 bonus checks to 2,000 employees.
- **Minnesota**
 - Industrial Weldors & Machinists (Duluth, Minnesota) - Invested in employee pensions and hired new employees.
 - Albert Lea Public Warehouse (Albert Lea, Minnesota) – Gave a \$2,000 bonus to all 12 of their employees.
- **Tennessee**
 - Ole Smoky Distillery (Gatlinburg, Tennessee) - Provided bonuses for their non-senior management employees. Additionally, they were able to purchase new equipment, open a new distillery, and hire new employees.
 - McKee Foods (Collegedale, Tennessee)- Funded \$1000 bonuses for all full-time employees and \$500 bonuses for all part-time employees.
- **Florida**
 - Florida Concrete Unlimited (Miami, Florida) – Increased wages for all of their employees and provided higher year-end bonuses.
 - Don Ramon Restaurant (West Palm Beach Florida) -- Provided bonuses and pay raises and, in addition to installing new coffee machines and refrigerators, will renovate and expand their facilities.
- **Pennsylvania**
 - Glass & Sons Collision Center (Reading, Pennsylvania)- Gave their employees a \$1000 bonus.
 - Appalachian Brewing Company (Harrisburg, Pennsylvania)- Added an additional 20-30 jobs.

In summary, the tax cuts have worked and small businesses across the country have been reaping the benefits and passing them on to their employees. Unemployment is at a 50-year-low, there are more jobs than there are job seekers, and wages have grown above 3% in all but two months since the tax cuts were enacted. If Congress wishes to continue helping small businesses they should continue to push pro-growth policies like those contained in the TCJA.

Sincerely,

Jessica Anderson
Vice President
Heritage Action for America

TESTIMONY BEFORE THE UNITED STATES CONGRESS ON BEHALF OF



Statement for the Record

Before the

**Committee on Small Business
United States House of Representatives**

**Hearing entitled "Is the Tax Cuts and Jobs Act a Help or Hinderance to Main
Street?"**

July 24, 2019

NFIB
1201 F Street, NW Suite 200
Washington, DC 20004

Chairwoman Velázquez and Ranking Member Chabot,

On behalf of NFIB, thank you for the opportunity to submit this statement for the record for the Small Business Committee hearing entitled, "Is the Tax Cuts and Jobs Act a Help or Hinderance to Main Street?"

As NFIB represents approximately 300,000 small and independent businesses across the country, we appreciate the Small Business Committee's interest in how tax policy affects Main Street businesses.

For years, small businesses have counted tax issues among five of their top ten problems, according to NFIB's *Small Business Problems and Priorities* survey.¹ The *Tax Cuts and Jobs Act* (TCJA) provided the biggest tax overhaul in more than three decades, and it dramatically improved the landscape for many small businesses.

Since the enactment of the tax law, the tangible effects have been remarkable and historic. According to NFIB's monthly *Small Business Economic Trends* survey, small and independent business owners are notably confident about the economy.² The NFIB Small Business Optimism Index has soared, providing the highest index reading in the survey's 45-year history. Earlier this year, NFIB's February *Jobs Report* broke another record; job creation among small businesses is at its highest in 45 years.³ The March *Jobs Report* also states that one-third of the businesses surveyed raised compensation, its highest reading since November 2000. Further, an additional 20 percent of small business owners are planning compensation increases within the next few months.⁴

Small business owners are reporting that sales are strong, profits are good, and employee compensation is increasing. They are making new capital outlays and increasing inventories. And, many are setting into motion plans to expand.

Simply put, the new tax law is helping Main Street.

For small business owners, the centerpiece of the tax changes is the new Small Business Deduction, or Section 199A. Under the law, a pass-through business owner – regardless of the type of business they own – can now claim a full 20 percent deduction on qualified business income (QBI) up to \$160,700 (single filer) or \$321,400 (joint filer) for tax year 2019.

¹ Small Business Problems and Priorities, NFIB Research Foundation, (August 2016) available online at <https://www.nfib.com/assets/NFIB-Problems-and-Priorities-2016.pdf>.

² NFIB Small Business Economic Trends, NFIB Research Foundation, (June 2019) available online at <https://www.nfib.com/assets/SBET-June-2019.pdf>.

³ NFIB Jobs Report, NFIB Research Foundation, (February 2019) available online at <https://www.nfib.com/assets/2019-Feb-Jobs-Report.pdf>.

⁴ NFIB Jobs Report, NFIB Research Foundation, (March 2019) available online at <https://www.nfib.com/assets/2019-March-Jobs-Report.pdf>.

In March, the Joint Committee on Taxation (JCT) released data on the Small Business Deduction.⁵ The analysis explains that over 95 percent of taxpayers who will claim the Small Business Deduction are below statutory income thresholds. The JCT estimates 26.8 million taxpayers will claim the Small Business Deduction for tax year 2019. Eligible businesses above the thresholds can still benefit from the deduction if they are employee intensive or make capital expenditures.

Coupled with lower individual rates, broader tax brackets, increased thresholds for the alternative minimum tax and estate tax, and significant increases in the expensing limits, the TCJA's benefits to small and independent business owners are substantial.

To put these reforms in context, consider Lana Pol. She owns multiple small businesses in and around Pella and Des Moines, Iowa, including Geetings, Inc., G.I. Warehouse Corporation, Mowbility Sales and Service, and Creative Inspirations. In testimony before the House of Representatives Budget Committee in late February, Pol explained how the TCJA, specifically, the Small Business Deduction, has impacted her businesses.⁶

Pol stated, "My accountant informed me that the new Small Business Deduction (Section 199A) will provide around \$40,000 in tax relief for our businesses. This tax relief from the new tax law provides crucial cash flow that allowed us to provide up to \$4,000 raises to our employees, the largest compensation increases we have been able to provide in recent years. These raises increased employees' take-home pay and helped us retain employees. As you know, businesses across the country are experiencing tight labor markets, an indicator of a strong economy. The labor market is especially tight in Iowa. Retaining highly-valued employees is key for our businesses to function."

Pol's experience is not unique. On May 17, 2018, NFIB released a survey titled *Small Business Introduction to the Tax Cuts and Jobs Act (Part 1)* to provide a baseline reading on small business owners' initial responses to the TCJA.⁷ The survey, the executive summary of which is attached as an addendum to this statement for the record, found small business owners are bullish about business and the impact of the TCJA:

- The vast majority (76 percent) of small business owners believe the current business climate is heading in a positive direction.
- Three-fourths of small business owners believe the tax law will positively impact their business.

⁵ Overview of Deduction for Qualified Business Income: Section 199A, Joint Committee of Taxation, (March 2019) available online at <https://www.jct.gov/publications.html?func=startdown&id=5171>

⁶ House of Representatives Budget Committee hearing, "2017 Tax Law: Impact on the Budget and American Families" (February 27, 2019), testimony available online at <https://budget.house.gov/legislation/hearings/2017-tax-law-impact-budget-and-american-families>.

⁷ Small Business Introduction to the Tax Cuts and Jobs Act: Part 1, NFIB Research Center, (May 2018), available online at <https://www.nfib.com/assets/TCJA-Survey.pdf>.

- Eighty-seven percent think the new tax law will have a positive impact on the general economy.

The majority of respondents anticipate a lower tax bill and plan to allocate the extra money across a number of business activities. Among these small business owners:

- Forty-four percent plan to increase employee compensation.
- More than one-quarter (27 percent) plan to use the extra savings to add employees.

Certain specific benefits stand out for small business owners:

- Overwhelmingly, 84 percent of small business owners view the creation of Section 199A as important.
- Eighty-five percent consider the reduction of individual rates as important.
- Two-thirds regard the changes to the estate tax as important.
- Seventy-six percent of small business owners view the doubling of the standard deduction as important.

The NFIB Research Center will continue to examine the TCJA's lasting effect on small business owners' expectations and plans, particularly since many of the benefits expire after 2025. This uncertainty complicates long-term planning for small business owners. NFIB urges the House of Representatives to consider the *Main Street Tax Certainty Act*, H.R. 216, to make these critical provisions permanent, thereby providing lasting tax relief to small business owners across the country.

As small businesses make up more than 99 percent of all U.S. businesses, they account for nearly half of the nation's private-sector jobs. When small businesses signal plans to grow, hire, and boost pay, it is good news for the entire economy.



Small Business
Introduction to the
Tax Cuts and Jobs Act:
Part 1

May 2018

Executive Summary

- Over three-quarters (76 percent) of small business owners believe the current business climate is heading in a positive direction (Q#4).
- The vast majority (87 percent) percent of small business owners think the new tax law will have a positive impact on the general economy. Just 4 percent believe it will have a negative impact and 9 percent think it will have no significant impact (Q#14).
- Three-fourths (75 percent) of small business owners believe the tax law will positively impact their business, 22 percent anticipate it will have no impact, and 3 percent a negative impact (Q#12).
- While small business owners are enthusiastic about the law generally, many of the details are still unfamiliar to them. Almost one-in-four (24 percent) percent of small business owners are not at all familiar with the new tax law (Q#7).
- Half of small business owners with some familiarity about the law obtained their most useful information from their tax preparer or advisor, another 28 percent from the general news media (Q#8).
- Over half (51 percent) of small business owners expect to pay less in federal income taxes next year, 7 percent expect to pay more, and 37 percent about the same (Q#15).
- Almost half (47 percent) of small business owners who expect to pay less in taxes next year plan to increase business investments with their tax saving (Q#15a5) and 44 percent plan to increase employee compensation (Q#15a6). Another 40 percent of small business owners plan to pay down debt obligations (Q#15a7), 32 percent plan to retain the funds freed up as higher earnings available to support business growth (Q#15a4), and 27 percent plan to hire an additional employee (Q#15a3).
- Over half (55 percent) say that the creation of Section 199A, allowing for up to a 20 percent small business income tax deduction, is "very important" with another 29 percent "somewhat important" (Q#20B).
- Forty-five percent of small business owners say that changes to the personal income tax brackets and rates are "very important" to them and their business, 40 percent say "somewhat important" (Q#20A).



Small Business Council of America Statement for the Record
U.S. House of Representatives Committee on
Small Business Hearing
"Is the Tax Cuts and Jobs Act a Help or Hindrance to Main Street?"
Paula Calimafde, Chair of the SBCA

August 6, 2019

Please accept the foregoing statement of the Small Business Council of America (SBCA) for the record in response to the U.S. House of Representatives Committee on Small Business, July 24, 2019 hearing on **"Is the Tax Cuts and Jobs Act a Help or Hindrance to Main Street?"**

The SBCA is a national nonprofit organization which has represented the interests of privately-held and family-owned businesses on federal tax, health care and employee benefit matters since 1979. The SBCA, through its members, represents well over 100,000 enterprises in retail, manufacturing and service industries, virtually all of which provide health insurance and sponsor retirement plans.

Internal Revenue Code Section 199A

The SBCA strongly supports simplifying and broadening the pass-through deduction set forth in Internal Revenue Code Section 199A (Section 199A) which was introduced by the Tax Cuts and Jobs Act. The intent of this code section was to attempt to level the playing field from a tax viewpoint between C corporations (C corps) and businesses (generally small businesses) who transact their business as pass-through entities, such as S Corporations (S corps), LLCs, partnerships, trusts and estates and sole proprietors. Unfortunately, Section 199A is exceedingly complex and epitomizes the opposite of tax simplification, which was one of the announced goals of the Tax Cuts and Jobs Act. The provision was also narrowly drawn so that many small pass-through entities do not qualify for the deduction at all.

As a very general summary, the 20% deduction on pass-through business income is allowed for all non-C corps entities where the business owner is married filing jointly and the couple has under \$315,000 of taxable income (technically "qualified business income") and single taxpayers and others, such as estates, with under \$157,500 of taxable income. Note this means that equal owners of the same business could end up with different deductions! The deduction is phased out for married individuals filing jointly with taxable income between \$315,000 and \$415,000 and between \$157,500 and \$207,500 for single individuals and others. If the business is a "specified service trade or business," then once the taxable income hits \$415,000 or \$207,500 respectively, **there is no 199A deduction.** A "specified service trade or business" is a business providing services in the medical, legal, accounting, actuarial, performing arts, consulting, athletics, financial, or brokerage fields or a business relying on one's reputation or skill (thankfully



defined narrowly in the regulations issued by IRS). Strangely, engineers and architects were specifically excluded from this definition even though deemed personal service organizations for other sections of the tax code! For all other businesses (i.e., not specified service businesses) that have exceeded the taxable income thresholds, there is an exceedingly complex test which in most cases will require the assistance of an accountant to determine the 199A deduction. Thus, if a small business owner makes \$100,000 of taxable income in a non-C corp entity and is married to a person who is making \$400,000 of taxable income, they are immediately thrown into a much more complex calculation to determine the 199A deduction and if the business is a specified service business, then he/she will receive no deduction at all! These second level of tests require a determination of W-2 wages paid or a determination of W-2 wages and the unadjusted basis of depreciable assets as defined in the statute. In most cases this second and more complex test, requires the business owners to employ the services of an accountant. So much for tax simplification!

The statement of Jane G. Gravelle, Senior Specialist in Economic Policy, from the Congressional Research Service, before the Committee confirmed the complexity inherent in IRC Section 199A. She discussed the complexity inherent in determining whether a business is a specified service trade or business. For example, the regulations under IRC section 199A state that "consulting" is a specified service business but also mention that this is a facts and circumstances determination and that if a "trade or business provides ancillary consulting services that are not separately purchased or billed, then such trades or businesses are not in a trade or business in the field of consulting." [Reg. Section 1.199A-5(b)(2)(vii)] Another example from the same regulation - brokerage services "includes services provided by stockbrokers and other similar professionals, but does not include services provided by real estate agents and brokers, or insurance agents and brokers." Many of the determinations as to whether a business is a specified service business requires a facts and circumstances test where IRS is the judge and jury. Clearly, it is a challenge for some businesses to determine whether IRS deems them to be in a specified service business. Ms. Gravelle also discussed the challenge in determining what an investment activity is (where the income derived is not eligible for the deduction) and what is a trade or business.

She did not mention, however, the complexity a small business owner of a pass-through entity will face simply trying to calculate the correct deduction under 199A. It is extremely difficult for many owners of pass-throughs who have income over the threshold amount and thus, have been thrown into the second level of tests, to determine the correct amount of the deduction. It is of note that this one tax code section has been the subject of numerous webinars and programs for accountants and lawyers and that hundreds of pages have been written discussing the nitty gritty details of the operation of the section. At least one prominent accountant¹ has attempted to encompass the entire section in a one page chart to allow one to see the bones of the tax code section and then with pages and pages of explanations provides the meat to the bones. He has already written an entire book on this code section! Several software programs have been developed so that accountants can determine the deduction more easily.

In order to avoid forcing the owners of pass-through entities to have to spend unnecessary time and money by paying for the services of a professional in order to level the

¹ Robert S. Keebler, CPA/PFS, MST, AEP



playing field with C Corp entities, the SBCA suggests that:

The threshold levels of \$315,000 and \$157,500 be significantly increased so that the second level of complex calculations is only reached by very high income taxpayers. We suggest the threshold level be at least doubled, if not tripled.

The limitation for companies involved with a specified service business should be eliminated. There is no justification to treat any pass-through business differently from another.

The second suggestion is particularly important for women business owners. Women business owners account for 40% of all US firms and this number has increased over the last 10 years by 58%. **More than 60% of these women owned businesses primarily operate as service firms.**² One would think that a number of these women business owners are being denied the 199A deduction simply because they are operating a service company and are either making too much taxable income themselves or they are, when combined with the taxable income of a spouse, for those filing jointly. This does not achieve equality with women owned businesses operating as C corps where their taxable income is irrelevant.

If the Congress were to modify IRC Section 199A in accordance with the above two suggestions – that is, increasing the thresholds and eliminating the specified service business limitations, it would not only greatly simplify the application of the code section but it would also work to level the playing field with their C corp competition.

Finally and quite obviously, IRC Section 199A has to be made permanent. The reduction in tax rates for C corps is permanent under the Tax Cuts and Jobs Act. Section 199A which was intended to level the playing field between pass-through entities and C corps, is set to expire at the end of 2025. This is inequitable.

Limitation on State and Local Taxes and Real Estate Taxes to \$10,000

As you are well aware, the Tax Cuts and Jobs Act severely limited the deduction for state and local income taxes and real estate taxes (referred to as the SALT deduction) – but not for all taxpayers. The tax treatment of this deduction is very different depending upon whether an entity is conducting business as a C corp or as a pass-through. With a C corp, the company gets a full deduction for the payment of these taxes. However, with a pass-through entity, it is the owners who pay these taxes individually and they are subject to the \$10,000 limitation. Thus, in most cases, there does not appear to be the same tax benefit for paying the state and local taxes on business income for a pass-through entity as there is with a C corp. At least for some accountants, there appears to be a question as to whether state and local taxes on the business income paid at the entity level could be deductible by the entity, even if a pass-through. This should be clarified by Congress and pass-throughs should be given the same tax treatment for this deduction as C corps.

² The 2018 State of Women-Owned Businesses Report, Ventureer (2018), available at https://about.americanexpress.com/files/doc_library/file/2018-state-of-women-owned-businesses-report.pdf



In order to provide owners of pass-through entities with greater tax parity with C corp entities, the SBCA suggests that:

The limitation on SALT be eliminated and the law prior to the Tax Cuts and Jobs Act be reinstated or the \$10,000 limitation be dramatically increased, at least to a minimum level of \$100,000.

Alternatively but not nearly as simple as the above approach, Congress should allow a deduction for all state and local income taxes and real estate taxes attributable to business income or generated by the business, regardless of whether the entity is conducting business as a C corp or as a pass-through.

Immediate Expensing of Capital Investments and Doubling of the 179 Expensing Cap

These beneficial provisions contained in the Tax Cuts and Jobs Act which encourage investment by owners in their businesses should be made permanent and should not be allowed to expire at the end of 2025. Certainty of the tax code is needed to allow small businesses to invest and grow their businesses.

AMT Exemption

At a minimum, the changes made to the AMT by the Tax Cuts and Jobs Act should be made permanent and not be allowed to expire at the end of 2025. Ideally, this entire code section should be repealed for everyone except the ultra-wealthy. AMT adds enormous complexity to the tax code and is basically a second tax system that is layered on top of our regular income tax system. Originally enacted to force a handful of ultra-rich taxpayers to pay taxes when they were able to avoid taxes under the regular tax provisions, its reach has grown over the years to cover millions of middle and upper middle income taxpayers.

Summary

While the Tax Cuts and Jobs Act was intended to simplify the tax code and level the playing field between entities conducting business as a C corp with those conducting business as a pass-through, it failed in some very important areas.

First, a number of the tax provisions aimed at helping pass-throughs are set to expire at the end of 2025 while the beneficial provisions dealing with C corps are permanent. **It is essential that Congress makes the beneficial provisions which assist pass-through entities permanent.**

Second, Section 199A is too complex and does not help enough small businesses. Section 199A should be simplified and expanded. Congress can accomplish these results by significantly increasing the threshold levels and by eliminating the specified service business limitation. The latter will particularly assist women owned small pass-through businesses.

Third, the tax treatment of the SALT deduction is not equitable between C corps and



pass-through entities. Congress should either significantly increase the \$10,000 limitation on the SALT deduction to \$100,000 or better, eliminate this limitation entirely and reinstate the provision as it stood prior to the Tax Cuts and Jobs Act.

Fourth, the Tax Cuts and Jobs Act left the AMT provisions intact and did not increase the exemption amount enough. AMT should be repealed except for the ultra-wealthy.

These changes would go a long way to leveling the tax playing field between pass-throughs and C corps, which would assist our Nation's small businesses to grow and become more prosperous.

Respectfully Submitted

Paula Calimafde, Esq., Chair
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**LETTER FOR THE RECORD FOR THE U.S. HOUSE OF
REPRESENTATIVES COMMITTEE ON SMALL BUSINESS**

HEARING ON

***IS THE TAX CUTS AND JOBS ACT A HELP OR HINDRANCE
TO MAIN STREET?***

JULY 24, 2019

ANNE ZIMMERMAN, CO-CHAIR OF BUSINESSES FOR RESPONSIBLE
TAX REFORM, CPA AND OWNER OF ZIMMERMAN & CO. CPAS IN
CINCINNATI AND CLEVELAND, OHIO

I am pleased for the opportunity to discuss the Tax Cuts And Jobs Act (TCJA) of 2017 and its impact on our country's Main Street small businesses, as well as to provide insight into areas the Committee should consider as it moves forward with ideas for tax reform that would help America's small businesses thrive.

Since 1986, my accounting firm Zimmerman & Co. CPAs has focused on providing small businesses and individuals with tax, financial planning, off-site CFO services and similar accounting assistance. I also serve as co-chair of Businesses for Responsible Tax Reform, a coalition of business leaders calling for tax reform that truly benefits America's small business owners, not just large corporations.

The title of today's hearing is, "Is the Tax Cuts and Jobs Act a Help or Hindrance to Main Street?" With more than three decades of experience as a CPA helping small businesses comply with their tax obligations—as well as running my own small business—I can answer this question unequivocally: It is a hindrance. The TCJA has done nothing to help make complying with the Internal Revenue code any easier. In fact, it has increased the complexity of filing taxes for small businesses, increased the cost of compliance, and increased the inequity between small businesses and large corporations. The TCJA picked winners and losers and small businesses were not the winners, despite being the backbone of our economy.

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The TCJA was sold as a boon for small businesses and their customer base—the middle class. Instead, large corporations and the wealthy reaped great rewards—a permanent 40% reduction in their tax rate—while the majority of small business owners have seen no significant impact from changes meant to benefit them. Businesses for Responsible Tax Reform has performed three national surveys of small business owners about the TCJA and each time they've said it favored large corporations and did little to help small business owners.

A recent [Congressional Research Service report](#)¹ shows the enormous tax breaks given to large corporations had little impact on economic growth. What's more, Businesses for Responsible Tax Reform's [latest poll](#)² found the law has not helped small businesses' profitability nor has it helped small business owners hire, grow or invest in their businesses. Indeed, 48% of respondents said the tax law had no impact on their businesses' growth or profitability, and 24% said it had a negative impact. Only 19% of owners said the law had a positive impact on their business.

That's just the economic picture. My daily experience working with small business owners reveals that the compliance side is just as ugly. The law added complexity to the tax code and cost to compliance as byzantine new rules forced small business owners to hire professionals like myself to help them navigate the changes.

The bottom line is the TCJA did not help small companies invest in employees or their businesses. But it did cause them to spend more time and money on compliance—truly unfortunate outcomes considering small business owners are an essential thread in the fabric of our country. Small businesses employ nearly half the country's private sector workforce³ and they invest in their communities. Entrepreneurship provides a pathway to financial stability for those who are willing to work hard to help themselves and it results in jobs, healthy neighborhoods, and a brighter future for our children.

We must create a tax code that helps people open new small businesses and helps existing small businesses grow and thrive. What follows are specific problems and potential solutions that would help alleviate some of the burdens the TCJA placed on small businesses:

- The TCJA gave pass-through businesses (how the vast majority of small business are organized⁴) a 20% tax deduction that expires in 2025. Many advocate making this deduction permanent, but I believe that would be a mistake. The fact that the deduction is temporary is a problem, but it is also flawed in its construction—the deduction is incredibly complex and unfair in how it dictates which small businesses qualify. The savings should be expanded to all small businesses rather than the ones chosen under the Specified Service Industry rules. Afterall, attorneys create jobs just the same as engineers, yet one was chosen for a deduction and another was not. These problems must be fixed rather than made permanent.

¹ Congressional Research Service, *The Economic Effects of the 2017 Tax Revision: Preliminary Observations*, https://www.everycrsreport.com/files/20190522_R45736_8a1214e903ee2b719e00731791d60f26d75d35f4.pdf, (May 22, 2019)

² Businesses For Responsible Tax Reform Poll, *New Tax Law A Dud For Small Business*, https://docs.wixstatic.com/ugd/4a8609_308eb721aee24ede3e93b43081e5303.pdf (April 10, 2019)

³ US Small Business Administration Office of Advocacy, *2019 Small Business Profile*, <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/04/23142719/2019-Small-Business-Profiles-US.pdf> (2019)

⁴ Tax Foundation, *The US Now Has Fewer Corporations and More Individually Owned Businesses*, <https://files.taxfoundation.org/20190319122410/paf-chart-111.png> (March 19, 2019)

- The TCJA exacerbated inequities between how large C-corporations and small businesses are taxed. Congress should equalize the tax savings for all businesses regardless of size. Large businesses got a 40% tax cut. Some, but not all, small businesses got a 20% tax deduction. There is no reasonable basis for these discrepancies, and they should be eliminated.
- The TCJA created 100% bonus depreciation, commonly called “expensing,” which helps large companies but does little for small businesses. Prior to this change, any business could already write off, in the current year, up to \$500,000 of new assets purchased that year, up to the amount of profits earned, plus half of assets purchased over that amount. Very few small businesses are buying more than half a million dollars in new assets per year, so this change doesn’t help a small, profitable business. The TCJA change in bonus depreciation only helps those who are losing money or those who can afford to buy huge quantities of equipment. When solving this issue, we must also fix the error in the TCJA that erroneously omitted Qualified Improvements from the definition of Qualified Property for Special Bonus Depreciation.
- For small businesses that are not pass-through entities, the TCJA actually produced a tax increase. Prior to the new law, C-corporations paid 15% federal tax on profits up to \$50,000 per year. Under the new law, tax on the first \$50,000 increased to 21%—a 40% increase for small businesses earning less than \$50,000. A small business taxed as a C-corporation received a tax rate increase unless it earns more than \$91,000 per year. Sixty-eight percent of small businesses have annual sales of \$200,000 or less⁵, so one can easily see that most small C-corporations got a tax increase rather than a reduction last year.
- Another flaw in the TCJA that affects some small business owners with pass-through entities is the new tax brackets for single taxpayers with taxable income between approximately \$157,500 and \$191,500. Their marginal tax rate rose from 28% to 32%. This is the only group that seems to have been punished with such an increase.
- Congress must equalize state and local tax (SALT) deductions between large and small businesses. Larger businesses tend to be C-corporations and are able to deduct all of the state and local taxes they are required to pay. These deductions are now limited for pass-through business owners. State and local taxes paid by small businesses tend to flow through to the business owner’s personal tax return onto their Schedule A itemized deductions. The new law limits the total SALT deduction to \$10,000, which means many small businesses and their owners are not able to deduct all the SALT taxes they pay. This could be resolved by removing or increasing the SALT limits or by excluding all small business taxes from the deduction limitation. This is yet another example of how the TCJA treats small businesses less favorably than it treats big business.
- Partners’ guaranteed payments should be treated the same as wages paid to the owner of S-corporations for the purpose of defining wages for the Sec. 199A wage-asset test. The only difference between the two is a technicality based on the type of entity the small business is and it is unfair to favor one over the other.
- Several of my clients were negatively impacted by the loss of the personal deduction for employee business expenses under the TCJA. If a worker is self-employed, they are allowed to deduct expenses directly related to earning that income. That same worker, if they are an employee but forced to cover many of their own expenses, is no longer able to deduct that cost. The worker should not be punished for being classified as an employee. More and more remote

⁵ Business Know How, *How Much Do Small Businesses Really Earn?*, <https://www.businessknowhow.com/money/earn.htm> (Feb. 8, 2019)

workers are experiencing costs that should be deductible and the deduction for employee business expenses should be reinstated.

- Congress needs to re-level the playing field for small businesses by reducing the ability of multi-national corporations to avoid taxes by shifting profits under a territorial system to lower tax rate countries. Again, large businesses are the only ones benefiting from this as smaller businesses don't have the resources to move parts of their business off-shore. Small businesses are building jobs here in the United States while large businesses get tax breaks for taking business overseas.
- A soaring deficit, brought on by tax cuts for the wealthy and for big businesses, will hurt small businesses in the long run as consumer spending slows.
- The changes brought about by the TCJA are some of the most complex I've ever seen. The details surrounding the new rules for 199A and 163j are outlandish and will have to continue to be developed and clarified with corrections and regulations for years to come. The end result of this new complexity is that small businesses are paying more to have their tax returns prepared which more than negates the minimal savings from the tax law. Simplify, simplify, simplify.
- New and better tax reform could have a major impact on small business success by providing a tax credit for the first employee hired. This would help the self-employed become employers
- Another option would be to make the first \$25,000 in profit for a small business tax free. A bottom-up approach like this would help the smallest of businesses.
- Offering small businesses relief on payroll taxes would be another way to put more money in the hands of Main Street businesses that would stay in the local communities.
- In an effort to help new businesses successfully get off the ground, doubling the startup tax deduction for small business would go a long way. This would provide immediate tax savings only to new entrepreneurial enterprises in their first year, providing direct assistance to increase their odds of success.

There is no reason tax reform has to favor large businesses. Tax policy can—and should—be written to help small businesses achieve their full economic potential. Small business owners agree: 65% of small business owners support rolling back the 40% corporate tax cut to fund policies that help small businesses, with just 16% opposing such a move⁶.

If Congress believes the tax code should be used to help businesses be more successful in order to spur the economy, that philosophy should apply to all businesses, not just the big ones. Big corporations have shown us what they do with tax cuts—they throw a tiny fraction of their savings to their employees and save huge amounts for their wealthy shareholders with stock buy backs⁷. Tax reform should be back on the national agenda, but this time it should be aimed at promoting entrepreneurship and small business success. Corporations had their chance to help. Now it's time to actually invest in our economy and our communities by rolling back the damage caused by the TCJA and enact tax reforms that truly help small businesses.

⁶ https://docs.wixstatic.com/ugd/4a8609_308eb721aee24edea3e93b43081e5303.pdf

⁷ Americans for Tax Fairness, *The Stock Buyback Top 20*, <https://americansfortaxfairness.org/wp-content/uploads/2019-03-20-1-Trillion-in-Stock-Buybacks-PRFINAL.pdf> (March 20, 2019)

It's time to stand up for America's job creators and get it right.



BOARD OF COUNTY COMMISSIONERS
WARREN COUNTY, OHIO
406 Justice Drive, Lebanon, Ohio 45036
www.co.warren.oh.us
commissioners@co.warren.oh.us

Telephone (513) 695-1250
Facsimile (513) 695-2054

TOM GROSSMANN
SHANNON JONES
DAVID G. YOUNG

July 24, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

I'm writing to express my support for the small business tax cuts that are a key component of the *Tax Cuts and Jobs Act* of 2017.

I've served as a County Commissioner in Warren County, Ohio for nearly 15 years. During that time I (and our Board of County Commissioners) have made decisions that encourage economic growth and business development; including business expansion incentives, workforce investment strategies and infrastructure improvements. These decisions have led to Warren County being one of the fastest growing counties in the state of Ohio, being ranked 4th in job creation, and receiving Moody's highest bond rating.

I'm keenly aware of the positive and/or negative impact local, state and federal tax policy has on our small businesses. When companies have less tax burden and more discretionary income through the corporate tax rate reduction, 20% pass-through deduction, and increased depreciation deductions for capital expenditures, they are more apt to reinvest in their business.

I support the continuation of the Tax Cut and Jobs Act so that small businesses will continue to have the confidence they need to grow, invest and provide more jobs in Warren County.

Respectfully submitted,


David G. Young
Warren County Commissioner

AREA PROGRESS COUNCIL OF WARREN COUNTY, INC.

Access Business Development & Finance, Inc.
ADVICS Manufacturing Ohio, Inc.
Atrium Medical Center
Bayer Becker, Inc.
Bricker & Eckler, LLP
Buckingham Financial Group
Camp Joy
Municipality of Carlisle
Child Advocacy Center of Warren County
Cincinnati Cares
Conger Construction Group
Council on Aging of Southwestern Ohio
Countryside YMCA
The Deciding Factor
Deerfield Township
Duke Energy Corporation
E-BEAM Services, Inc.
Edward Jones Investments - Bob Bedinghaus
Edward Jones Investments - Adam Kwicinski
Evans CivilPro Engineers, LLC
ENIT Best Realty
Express Delivery Services, Inc.
Farm Bureau - Warren County
Farm Credit Mid-America
1st National Bank
Flagel Huber Flagel & Co., CPA's
Fort Ancient Earthworks and Nature Preserve
City of Franklin
Franklin Area Chamber of Commerce
Frost Brown Todd LLC
George Steel Fabricating, Inc.
CSI Companies
The Golden Lamb
Gray & Duning, Attorneys
Charles H. Hamilton Co.
JWCJ
Kapstone Financial Advisors
LCNB National Bank
Lebanon Area Chamber of Commerce
City of Lebanon
Lebanon Public Library
LifeSpan, Inc.
Little Miami Area Chamber of Commerce
Mary L. Cook Library
City of Mason
Mason Deerfield Chamber of Commerce
McAfee HVAC
McGill Smith Punshon, Inc.
Mental Health Recovery Services
Miami Valley Gaming
Miami University VOA Learning Center
Minuteman Press, Lebanon
Wm. A. Natrop Co.
Ohio Means Jobs - Warren County
Ottobach Senior Lifestyle Choices
Peoples Bank
Quaker Heights Care Community
Right Path Enterprises, LLC
The Schuster Group of Companies
Sibey Cline Realtors, Lebanon
Sinclair College
SiteWORX, LLC
Springboro Area Chamber of Commerce
City of Springboro
Taft, Stettinius & Hollister, LLP
U S Bank
Union Village Development Company
United Way of Warren County
YSWC Architects, Inc.
Ralph E. Wade Insurance Agency, Inc.
Warren County Board of Developmental Disabilities
Warren County Career Center
Warren County Combined Health District
Warren County Commissioners
Warren County Community Services, Inc.
Warren County Convention & Visitors Bureau
Warren County Foundation
Warren County Municipal League
Warren County Office of Economic Development
Warren County Park District
Warren County Prosecutor's Office
Warren County Recorder Office
Warren County Regional Planning
Waynesville Area Chamber of Commerce
WesBanco Bank, Inc.

P. O. Box 802 • Lebanon, Ohio 45036-0802 • (513)932-8228 • fax (513)933-8228 • www.apcwc.org

July 24, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

Area Progress Council of Warren County, Inc. represents owners of small and independent businesses that operate in Warren County. We serve as advocates for Business, Education and Community. We're writing to respectfully state support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For our member companies, tax issues have historically presented challenges and uncertainty for their day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

The majority of business/companies are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on their share of their business income. This much-needed savings has resulted in more confidence in our economy, giving them the ability to invest in and expand their businesses, **employ more people and pay more competitive wages**. This, in its self is a benefit to the wellbeing of our region.

These tax cuts are key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Respectfully submitted,


Arla R. Tannehill
Administrator

Advocates for Business, Education & Community

■ Promoting Warren County Since 1969 ■
1969 – 2019 Celebrating 50 Years of Commitment





E-BEAM Services, Inc.

the POWER of Electrons

July 9, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

I lead a small, independent business that operates in Warren County (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest, Ohio. I am writing to respectfully state our support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For us, tax issues have historically presented challenges and uncertainty for our day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

As an S corporation, through enactment of the tax law, we are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, giving us the ability to invest in and expand our business, employ more people and pay more competitive wages. With most of our workers being among the middle class, the latter is of significant benefit to them.

As a small business, we make many of our decisions based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Respectfully submitted,

Sam Strotman
President & COO

270-H Duffy Avenue
Hicksville, New York 11801
1.516.622.1422

118 Melrich Road
Cranbury, NJ 08512
1.609.655.7460

2775 Henkle Drive
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July 24, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

I am an owner of a small and independent business (CPA firm) that operates in Warren County (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest, Ohio. I am writing to respectfully state my support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For me, tax issues have historically presented challenges and uncertainty, not only for my day-to-day operations, but also for that of most of my clients. In this regard, enactment of the tax law has been overwhelmingly positive.

My company and most of my clients are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on our share of business income. This much-needed savings has resulted in more confidence in our economy, giving us the ability to invest in and expand our businesses, employ more people and pay more competitive wages. With most of our workers being among the middle class, the latter is of significant benefit to them.

As small business owners, we make many of our decisions based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

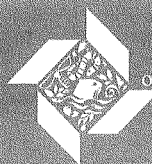
Respectfully submitted,

Randall S. Kuvin, CPA/ABV, CFF
Managing Partner

DAYTON
3400 South Dixie Drive / Dayton, Ohio 45439-2304
phone: (937) 299-3400 / fax: (937) 293-5481 / www.thf-cpa.com



CINCINNATI
9135 Governors Way / Cincinnati, Ohio 45249-2037
phone: (513) 774-0300 / fax: (937) 293-5481 / www.thf-cpa.com⁴



Dayton Society
of
Natural History

BoonshoftMuseum.org
SunWatch.org
FortAncient.org

Jack Blosser

Fort Ancient Earthworks and Nature Preserve

6123 st rt 350

Oregonia, Ohio 45054

July 19, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

I am a site manager for Fort Ancient that operates in Warren County (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest, Ohio. I'm writing to respectfully state our support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For my business, tax issues have historically presented challenges and uncertainty for our day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

The majority of small businesses are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, provides the ability to invest in and expand our businesses, employ more people and pay more competitive wages. With most small business employees being among the middle class, the latter is of significant benefit to them.

As a small business site manager, many decisions are made based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Respectfully submitted,

Jack Blosser

Site manager

Fort ancient Earthworks and nature Preserve.

jblosser@fortancient.org



Harrison's Pro Tree Service LLC
3387 Shaker Rd.
Franklin, OH 45005
937-974-6891

July 11, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

We are owners of small and independent businesses that operate in Warren County (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest Ohio. We're writing to respectfully state our support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For us, tax issues have historically presented challenges and uncertainty for our day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

The majority of us are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, giving us the ability to invest in and expand our businesses, employ more people and pay more competitive wages. With most of our workers being among the middle class, the latter is of significant benefit to them.

As small business owners, we make many of our decisions based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Respectfully submitted,

Denise Harrison



House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

July 24, 2019

Re: Hearing on Tax Reform and Small Business

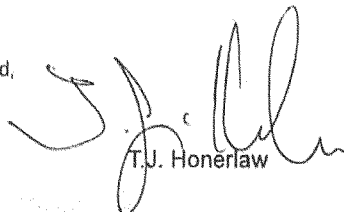
Dear Chairwoman Velázquez and Ranking Member Chabot:

I am a small business owner that operates in Warren County (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest Ohio. I'm writing to respectfully state our support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For my business, tax issues have historically presented challenges and uncertainty for our day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

The majority of small businesses are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, provides the ability to invest in and expand our businesses, employ more people and pay more competitive wages. With most small business employees being among the middle class, the latter is of significant benefit to them.

As a small business owner, many decisions are made based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Respectfully submitted,



T.J. Honerlaw

Corporate Headquarters
8401 Claude Thomas Road, Suite 51
Franklin, OH 45005
P: 855.704-5924
F: 937.704.9949



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July 16, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

I am a small business owner in Warren County, Ohio (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest, Ohio. I'm writing to respectfully state our support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For our business, tax issues have historically presented challenges and uncertainty for our day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

The majority of small businesses are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, provides the ability to invest in and expand our businesses, employ more people and pay more competitive wages. With most small business employees being among the middle class, the latter is of significant benefit to them.

As a small business owner, many decisions are made based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act* and continue to implement other strategies that benefit small businesses.

Sincerely,

T. Shawn Campbell, President

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July 24, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

Please allow me to introduce my Company. I live in Warren County (Ohio), and I am CEO of Long-Stanton, which was founded during the Civil War in Cincinnati, Ohio. Long-Stanton has been in operation as an ongoing entity for over one hundred and fifty years.

I'm writing to respectfully state our support of the *Tax Cuts and Jobs Act*, precisely the tax cuts provided to small businesses. For my business, tax issues have historically presented challenges and uncertainty for our day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

What is Our Current Situation Today Compared to The Past?

US Growth Rate:

1940-2000 3.9%

2000-2015 1.8%¹

- Our growth rate has been cut in half between 2000-2015 compared to the previous sixty years²
- Over the same fifteen-year period, with this half growth rate, the Wall Street Journal reports, "American median household incomes, adjusted for inflation, have fallen 7% since 2000."³
- During this same fifteen-year period, the middle class has dwindled so far, it is no longer our economic majority⁴
- During the years of 2017-2018, including the signing of the *Tax Cuts and Jobs Act*, the growth rate has increased to 2.5%, which is a 38% increase compared to 2000-2015.⁵

The overall design of the *Tax Cut and Jobs Act* has allowed small business to invest more in their business and employees. During the fifteen years from 2000-2015, the U.S. economic growth rate was 1.8%, which is less than half of the growth rate from 1940-2000. Throughout the years of 2000-2015, small businesses and their employees were gasping for air, as business owners received no substantive help in the form of tax relief. Then the financial crisis came. Banks were bailed out by the government, and small businesses were left to fend for themselves. Many small companies died an early death, throwing employees out work and having their homes foreclosed on due to loss of their income. The resources that were taken from small businesses and their now out of work employees were used to support the financial sector. Today, because of the *Tax Cut and Jobs Act*, there is a general feeling, factually backed by the multi-decade low unemployment rate, that small business is beginning to recover from the financial crisis, and that small business is starting to get "better" again.

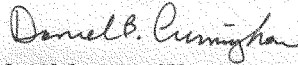
As the owner of my business, Long-Stanton, I implore congress on behalf of my company and my employees to undertake no altering of the *Tax Cut and Jobs Act*. Let the *Tax Cut and Jobs Act* continue to help small business, and their employees recover from the previous fifteen years of low growth. Let them improve and train their employees for more productive work, which will drive higher real market-based wages for our employees.

Like many American businesses, Long Stanton is an S Corporation. Today, even with the 20% tax credit as specified by the Tax Cut and Jobs Act, our tax rate is still higher than C-Corporations. During the final crisis, we received zero help from government entities, unlike banks and automobile companies. Right now, the 20% tax credit is allowing our company to re-invest in hi-tech productivity improved processes and equipment. Removal of the 20% tax credit, which enables us to compete with C-Corps, will destroy our investments into productivity-enhancing process and equipment.

The majority of small businesses are organized as S corporations, LLCs, partnerships or proprietorships who, through the enactment of the tax law, are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, provides the ability to invest in and expand our businesses, employ more people, and pay more competitive wages. With most small business employees being among the middle class, the latter is of significant benefit to them.

As a small business owner, many decisions are made based on the economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions outlined in the *Tax Cuts and Jobs Act*.

Respectfully submitted,



Daniel B. Cunningham, CEO
The Long-Stanton Group

² B. E. A. US Department of Commerce, "Bureau of Economic Analysis," accessed October 22, 2016, <http://www.bee.gov/national/index.htm>.

³ US Department of Commerce.

⁴ Jon Hilsenrath and Bob Davis, "Election 2016 is Propelled by the American Economy's Failed Promises," *Wall Street Journal*, July 7, 2016, sec. Page One, <http://www.wsj.com/articles/election-2016-is-propelled-by-the-american-economy-failed-promises-1467909580>.

⁵ "The American Middle Class Is Losing Ground," *Pew Research Center's Social & Demographic Trends Project* (blog), December 9, 2015, <http://www.pewsocialtrends.org/2015/12/09/the-american-middle-class-is-losing-ground/>.

⁶ "U.S. - GDP Growth by Year 1990-2018," Statista, accessed July 17, 2019, <https://www.statista.com/statistics/188165/annual-gdp-growth-of-the-united-states-since-1990/>.



July 15, 2019

House Committee on Small Business
 Congresswoman Nydia Velázquez, Chair
 Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

I am a small business owner that operates in the southwestern Ohio area including a significant number of projects in Warren County (the 3rd fastest growing county in the state of Ohio). I'm writing today in support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For my business, tax issues have historically presented challenges and uncertainty for our day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

My company is organized as an S-Corporation. My partners and I, through enactment of the tax law, are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, provides the ability to invest in and expand our businesses, employ more people and pay more competitive wages. A majority of our employees are among the middle class and as a result of our increased ability to reinvest in our business they have seen significant benefits accrue to them.

As a small business owner, many decisions are made based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Sincerely,

McGill Smith Punshon, Inc.

A handwritten signature in black ink that reads "Stephen C. Roat". The signature is written in a cursive, flowing style.

Stephen C. Roat, PS

President



101 Dave Avenue • Lebanon, OH 45036 • 513.932.4222 • Fax 513.932.0950 • www.mmpresleeb.com

July 24, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

I am a small business owner that operates in Warren County (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest, Ohio. I'm writing to respectfully state our support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For my business, tax issues have historically presented challenges and uncertainty for our day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

The majority of small businesses are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, provides the ability to invest in and expand our businesses, employ more people and pay more competitive wages. With most small business employees being among the middle class, the latter is of significant benefit to them. The idea that the tax cuts only benefitted the top 1% is ridiculous. We have had to give all of our employees significant raises to be competitive for attracting and keeping good workers.

As a small business owner, many decisions are made based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Respectfully submitted,

Michael A. Geygan
Owner



July 24, 2019

House Committee on Small Business
 Congresswoman Nydia Velázquez, Chair
 Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

We are owners of small and independent businesses that operate in Warren County (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest, Ohio. We're writing to respectfully state our support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For us, tax issues have historically presented challenges and uncertainty for our day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

The majority of us are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, giving us the ability to invest in and expand our businesses, employ more people and pay more competitive wages. With most of our workers being among the middle class, the latter is of significant benefit to them.

As small business owners, we make many of our decisions based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Respectfully submitted,



740 S US RT 42, Bldg. 1262, Lebanon, Ohio 45036 (513) 934-7099

July 24, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

I am a small business owner that operates in Warren County (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest, Ohio. I'm writing to respectfully state our support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For my business, tax issues have historically presented challenges and uncertainty for our day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

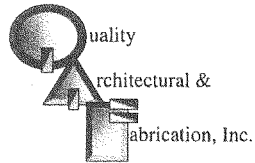
The majority of small businesses are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, provides the ability to invest in and expand our businesses, employ more people and pay more competitive wages. With most small business employees being among the middle class, the latter is of significant benefit to them.

As a small business owner, many decisions are made based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Sincerely,

JIM OSBORNE TRUCKING, LLC

Tina Osborne, Partner



July 24, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

We are owners of small and independent businesses that operate in Warren County (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest Ohio. We're writing to respectfully state our support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For us, tax issues have historically presented challenges and uncertainty for our day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

The majority of us are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, giving us the ability to invest in and expand our businesses, employ more people and pay more competitive wages. With most of our workers being among the middle class, the latter is of significant benefit to them.

As small business owners, we make many of our decisions based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Respectfully submitted,

Geodora L. Lewis -VP

8 Shotwell Drive Franklin, OH 45005
Phone (937) 743-2923 Fax (937) 746-9609 email: Sales@QAF.cc



July 24, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

We are a non-profit chamber of commerce representing small and independent businesses that operate in Warren County (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest, Ohio. I'm writing to respectfully state our support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For us, tax issues have historically presented challenges and uncertainty for our members' day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

The majority of small businesses are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, provides the ability to invest in and expand our businesses, employ more people and pay more competitive wages. With most small business employees being among the middle class, the latter is of significant benefit to them.

As small business owners, they make many decisions based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Respectfully submitted,


Carol Hughes
President/CEO
Springboro Chamber of Commerce

325 S. Main St., Springboro OH 45066 * Tel: 937-748-0074 * SpringboroOhio.org

DECIDING FACTOR

marketing that makes up minds

July 24, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

I am a small business owner that operates in Warren County (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest, Ohio. I'm writing to respectfully state our support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For my business, tax issues have historically presented challenges and uncertainty for our day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

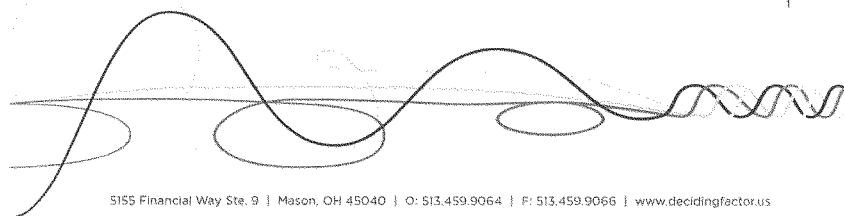
The majority of small businesses are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, provides the ability to invest in and expand our businesses, employ more people and pay more competitive wages. With most small business employees being among the middle class, the latter is of significant benefit to them.

As a small business owner, many decisions are made based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Respectfully submitted,



Karen Meyers Holzer
The Deciding Factor, Inc.



5155 Financial Way Ste. 9 | Mason, OH 45040 | O: 513.459.9064 | F: 513.459.9066 | www.decidingfactor.us

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**TOTAL
QUALITY
MACHINING INC.**

10 SHOTWELL DRIVE
FRANKLIN OH 45005
937 746 7765

July 24, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

We are owners of small and independent businesses that operate in Warren County (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest Ohio. We're writing to respectfully state our support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For us, tax issues have historically presented challenges and uncertainty for our day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

The majority of us are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on our share of our business income. This much-needed savings has resulted in more confidence in our economy, giving us the ability to invest in and expand our businesses, employ more people and pay more competitive wages. With most of our workers being among the middle class, the latter is of significant benefit to them.

As small business owners, we make many of our decisions based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Respectfully submitted,



"BUILDING QUALITY TO CUSTOMER SATISFACTION"



July 16, 2019

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

Dear Chairwoman Velázquez and Ranking Member Chabot:

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As small business owners, we make many of our decisions based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John Leugers".

John Leugers
General Manager
UniFirst

Waynesville...

July 9, 2019

"The Antiques Capital of the Midwest"SM

House Committee on Small Business
 Congresswoman Nydia Velázquez, Chair
 Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

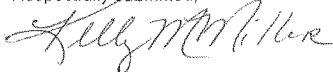
Dear Chairwoman Velázquez and Ranking Member Chabot:

We are a nonprofit chamber of commerce representing small and independent businesses that operate in Warren County (the 3rd fastest growing county in the state of Ohio) and the surrounding region of Southwest, Ohio. We're writing to respectfully state our support of the *Tax Cuts and Jobs Act*, specifically the tax cuts provided to small businesses. For us, tax issues have historically presented challenges and uncertainty for our member's day-to-day operations. Enactment of the tax law has been overwhelmingly positive.

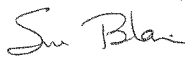
The majority of the businesses we represent are organized as S corporations, LLCs, partnerships or proprietorships who, through enactment of the tax law, are now able to claim a 20 percent deduction on a share of their business income. This much-needed savings has resulted in more confidence in our economy, providing the ability to invest in and expand their businesses, employ more people and pay more competitive wages. With most of these workers being among the middle class, the latter is of significant benefit to them.

As small business owners, they make many of their decisions based on economic outlook. We see the tax cuts as key to maintaining the vibrant economy we currently have in Southwest Ohio, and we encourage the Committee on Small Business to keep the provisions set forth in the *Tax Cuts and Jobs Act*.

Respectfully submitted,



Kelly Miller
 Executive Director, Waynesville Area Chamber of Commerce



Sue Blair
 President, Waynesville Area Chamber of Commerce Board of Directors

Waynesville Area Chamber of Commerce • P.O. Box 281 • 10B N. Main Street • Waynesville, Ohio 45068
 513-897-8855 • Fax 513-897-9833
www.waynesvilleohio.com

Waynesville...

July 9, 2019

"The Antiques Capital of the Midwest"SM

House Committee on Small Business
Congresswoman Nydia Velázquez, Chair
Congressman Steve Chabot, Ranking Member

Re: Hearing on Tax Reform and Small Business

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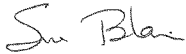
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Respectfully submitted,



Kelly Miller
Executive Director, Waynesville Area Chamber of Commerce



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The Honorable Nydia Velazquez
 Chair, House Small Business Committee
 2361 Rayburn House Office Building
 Washington, DC 20515

The Honorable Steve Chabot
 Ranking Member, House Small Business Committee
 2361 Rayburn House Office Building
 Washington, DC 20515

Dear Chair Velazquez and Ranking Member Chabot

I write to you on behalf of the Policy and Taxation Group, which is an organization comprised of family-held businesses from throughout the country that are dedicated to repeal of the estate tax. We appreciate the House Small Business Committee holding this hearing to examine the *Tax Cuts and Jobs Act* (TCJA) and its impact on Main Street, and submit this letter for the record to provide you with our perspective on the 2017 tax law.

Though reasonable minds can disagree over the merits of the policies enacted in the TCJA, there are various provisions that are already providing tangible benefits to family-held businesses, such as the pass-through deduction and the doubling of the estate tax exemption. That said, there is also one key “hindrance” to family-held businesses that needs to be resolved: these provisions are currently set to expire at the end of 2025. To provide certainty to our nation’s family-held businesses and maximize the benefits that these policy changes were intended to provide, it is important that these policies be made permanent.

As relates to the estate tax, specifically, we also believe that more than just a doubling of the exemption is needed. For example, based on the 2016 Internal Revenue Service estate tax tables, 88-percent of those who filed an estate tax return fall within the current exemption; however, of those who actually *paid* the tax, 66-percent *remain* subject to the tax – despite the increased exemption. This means that many of the family-held businesses that employ millions of Americans will be at risk when their estate tax bills come due – as will the jobs that they provide. To underscore the negative impact this has on Main Street businesses, attached is important data from Family Enterprise USA’s (FEUSA)¹ 2019 Family Business Survey – a survey conducted each year to update lawmakers on the facts about and priorities of family businesses.

Given these concerns, we urge Congress to take bold action to protect family-held businesses and their employees and eliminate the estate tax. Another legislative option that will help *all* family-held businesses subject to the estate tax: reduce the rate – which is arbitrarily the highest rate in the tax Code – to the capital gains tax rate, while maintaining step-up in basis.

¹ FEUSA is a 501(c)(3) organization dedicated to educating the public and creating an environment where private family business is valued and strengthened.

In addition to a reduction in the estate tax rate, there are various other policy changes that could be implemented to protect family-held businesses and their employees from the unfair and disastrous consequences of the estate tax. As lawmakers continue to examine such policies in a post-tax reform world, we stand ready to serve as a resource to you, your fellow Committee members, and staff and are happy to provide additional information or answer any questions that you may have.

Thank you for your consideration of these important tax policies and your continued efforts to improve our nation's tax Code.

Sincerely,

Mike Zarrelli

Mike Zarrelli
CEO
Policy and Taxation Group



2019 FEUSA Family Business Survey

May 2019

Family Enterprise USA (FEUSA) is the organization that family business owners and legislators in Washington DC go to for information on the family business industry. FEUSA has established itself as a trusted resource through research work, an annual survey of family businesses across the country, focus groups and general data gathering about the issues and challenges family businesses face every day.

FEUSA's membership consists solely of, and is supported by, family businesses with the single purpose of promoting family business in America, so they can continue to grow, thrive and add jobs.

HOW YOU CAN HELP: Membership in FEUSA is open to all family businesses. Please contact Mike Hamra or Pat Soldano of the FEUSA Board at www.familyenterpriseusa.com to find out how you can join, provide financial support and work with FEUSA to help educate legislators in your community and on Capitol Hill.

2019 FEUSA Survey Administered by:



About this Survey



- Family Enterprise USA (FEUSA) is a 501(c)(3) organization dedicated to educating the public and creating an environment where private family business is valued and strengthened.
- Through its annual Family Business Survey, FEUSA has distinguished itself as an expert in data collection on family business across the United States.
- The FEUSA Family Business Survey is conducted to update lawmakers on the facts about and priorities of family businesses each year, and to further our efforts to grow public support for hard working family-owned businesses across America.
- FEUSA retained Family Office Exchange (FOX) to coordinate participant outreach and administer the 2019 FEUSA Family Business Survey. This report captures data from 214 family-owned businesses that completed the online survey from February to April 2019.
- Sample sizes are noted for each question. If you have questions or comments about the data and analysis presented herein, please contact FEUSA Board Chair, Mike Hamra at mhamra@teamhamra.com, or FEUSA Vice Chairman, Pat Soldano at pmsoldano@policyandtaxationgroup.com.
- FEUSA and Family Office Exchange are grateful to the university-based family business centers and Family Office Exchange members who helped spread the word about this survey and, most of all, to the family business leaders who took time to share their perspectives by completing this survey.

About the Participants

- The large majority of survey participants (89%) are either sole owners or majority owners of a business. 81% saw their revenue grow during 2018 and over half (53%) report gross revenues of \$21 million or more.
- Among those who saw their revenue grow in 2018, the majority (71%) report growth between 5-20%.
- Two-thirds (65%) of participating business owners employed over 50 individuals in 2018 and 8 in 10 (83%) report up to 50 net new US jobs added during the year.

Long-Term Commitment to their Businesses

- One-third of participants have defied the parable of “shirt sleeves to shirt sleeves in three generations” and have businesses that have been in the family for four or more generations.
- 8 in 10 respondents consider the family business to be part of their children’s legacy.
- 44% have passed ownership of the business to the next generation. Partial ownership is the most common transfer with two-thirds (66%) reporting as such.
- 89% agree that passing ownership to the next generation is important to the sustainability of their business over generations and the creation of more jobs.

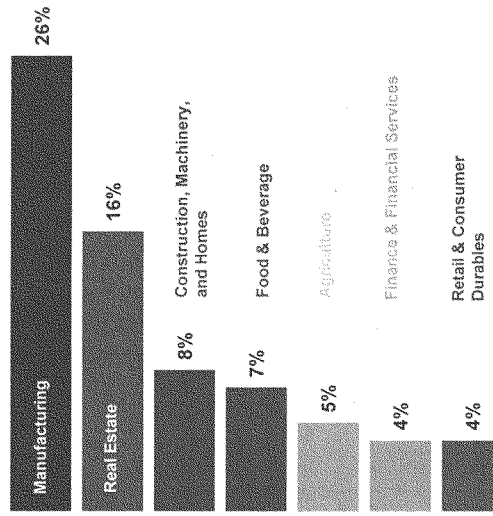
Challenges & Concerns

- 7 in 10 participating business owners rate reducing regulations and reducing or eliminating estate taxes as the highest priorities in terms of importance to them and their businesses.
- Two-third (66%) of participating business owners are likely to support reducing the rate of estate taxes to that of a capital gains tax rate or the complete repealing of the estate tax.

BUSINESS PROFILE

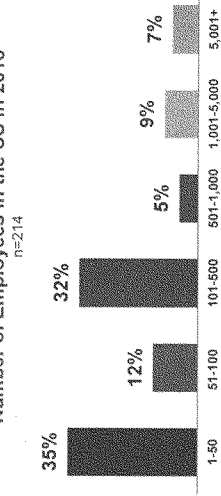
Principal Industry, Employees

Which of the following best describes the principal industry of your family business?
n=204

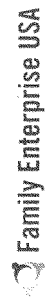


The remaining participants represent industries that include insurance, business support & logistics, entertainment & leisure, and others.

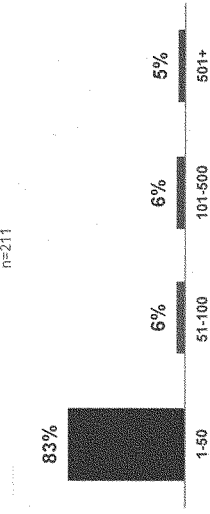
Number of Employees in the US in 2018



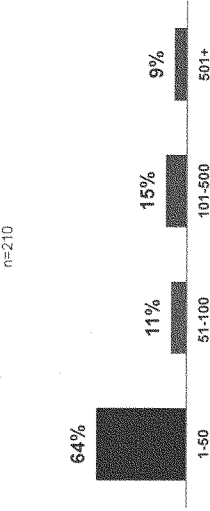
Jobs Added, Planning to Add



Net New US Jobs Added in 2018
n=211

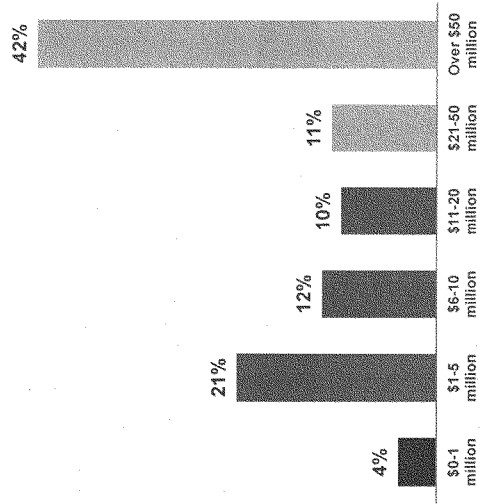


Net New US Jobs to be Added over 5 Years
n=210



Revenue & Growth

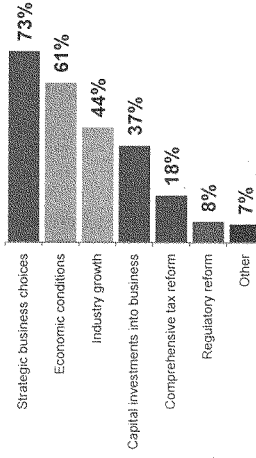
Gross US Revenues for 2018
n=204



Did your business revenue grow in 2018?
n=214



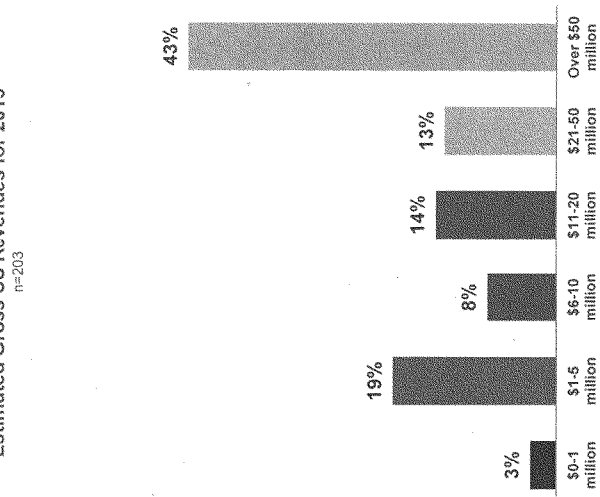
Sources of Revenue Growth in 2018
(Select all that apply) n=173



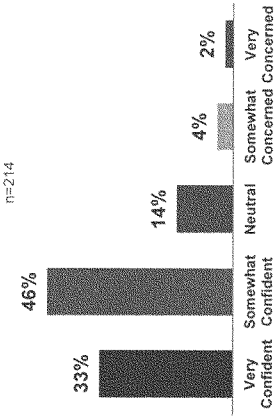
Other sources of revenue growth include:
Competition going out of business
Hurricane and a cold winter

Revenue Expectations for 2019

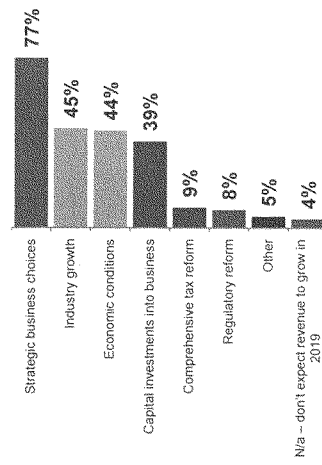
Estimated Gross US Revenues for 2019
n=203



Confidence in Business's Ability to Increase Revenue Each Year
n=214



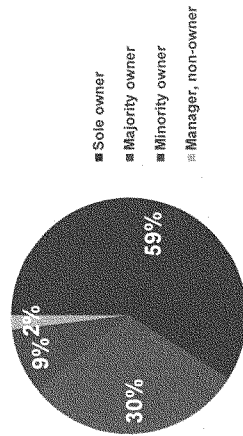
Expected Sources of Revenue Growth in 2019
(Select all that apply) n=211



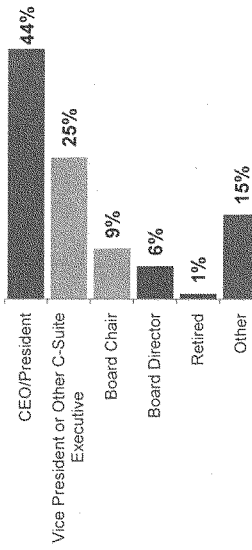
BUSINESS LEADERSHIP

Leadership Profile

Nature of Business Ownership
n=214

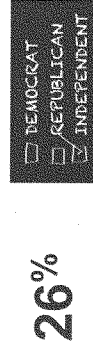
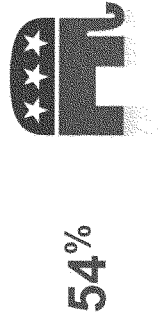


Role in Family Business
n=214



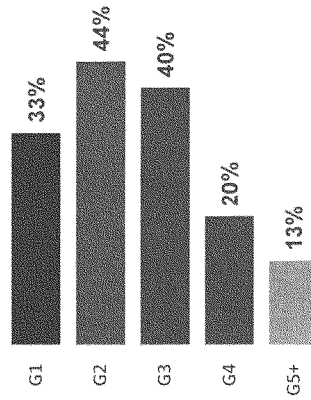
Other includes: Family Office Director, Trust Advisor, Stockholder

How do you identify yourself politically?
n=212



9% Other includes: 'Capitalist', 'Pre-Trump Republican', 'Fiscally conservative, socially liberal', 'Brain and business sense of a Republican and the heart of a Democrat.'

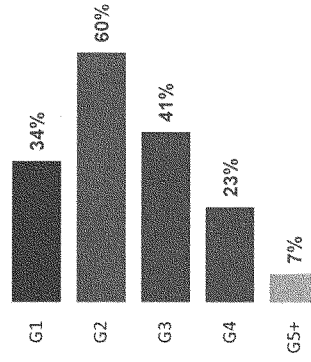
What generation is the ownership of your family business? *Select all that apply.*
n=214



Do you consider your family business to be part of your children's legacy?
n=211

YES 83% NO 17%

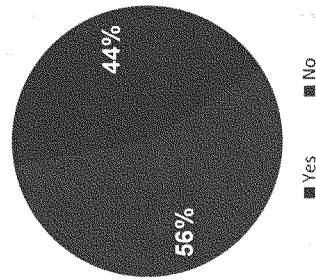
Which generations are active in the management of the family business? *Select all that apply.*
n=212



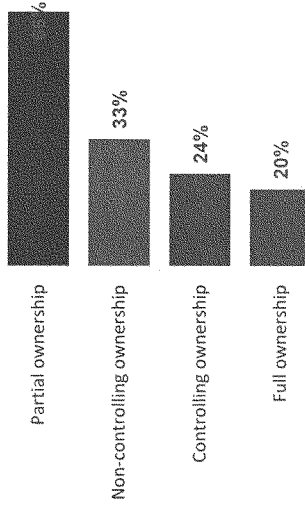
Keeping It In the Family

- One-third of participants have defied the parable of "shirt sleeves to shirt sleeves in three generations" and have businesses that have been in the family for four or more generations.
- 8 in 10 respondents consider the family business to be part of their children's legacy.

Have you passed ownership of the business on to the next generation?
n=214



Type of ownership transfer. Select all that apply.
Among those who passed ownership. n=94



Reasons for not passing ownership include:

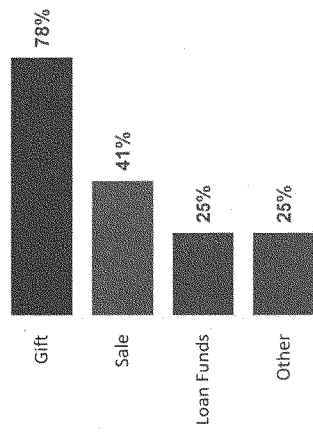
G1 still works on a daily basis.

Family members are not qualified to run the business.

G2 is actively successfully managing the business, and transfer was not crucial. Also, looking to potentially sell the business.

G3 does not want to do so, and minimal interest from G4 in owning an investment business. Perhaps it will pass to management in the future.

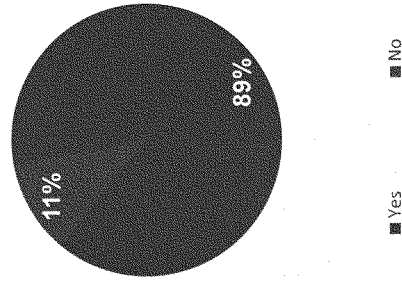
What strategy did you use to pass ownership of your business? *Select all that apply.*
Among those who passed ownership. n=92



Other strategies include:

GRAT, Trusts, Stock redemption

Do you think that passing ownership on to the next generation is important to the sustainability of your business over generations and the creation of more jobs?
n=212



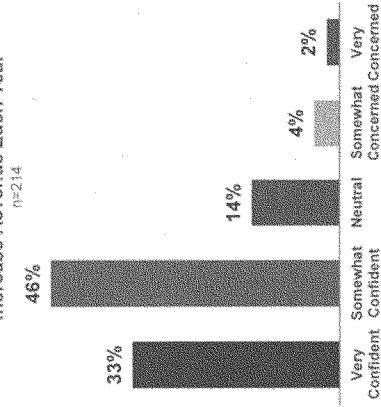
■ Yes ■ No

BUSINESS CONCERNS & CHALLENGES

139

Confident About Revenue Growth

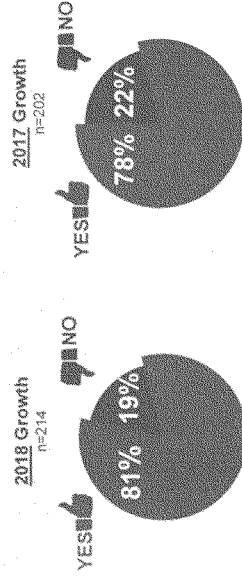
Confidence in Business's Ability to Increase Revenue Each Year
n=214



Confidence in Continued Growth

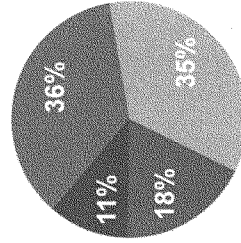
- In a slight increase versus last year, 81% of family business owners report revenue growth in 2018.
- Half (48%) report 2018 growth rates over 10%.
- 79% of respondents are confident about their ability to increase revenue each year.

Did Your Business Revenue Grow?



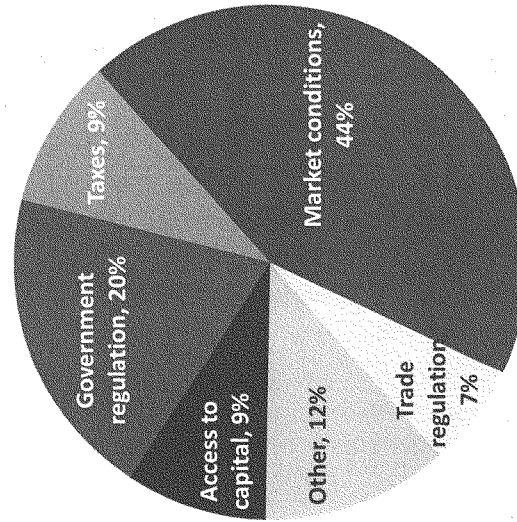
2018 Revenue Growth

Among yes to revenue growth in 2018: n=168



■ More than 20% ■ 10-20% ■ 5-10% ■ Less than 5%

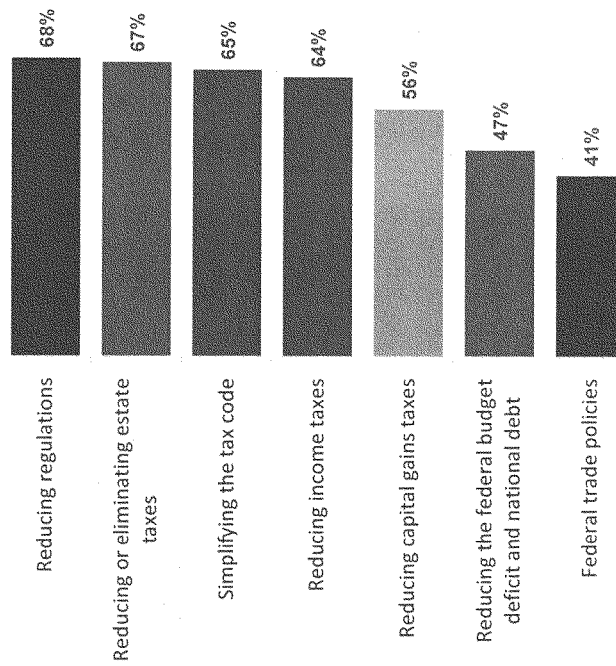
What will be the greatest impediment to your business growth? Select one.
n=213



Other impediments include:

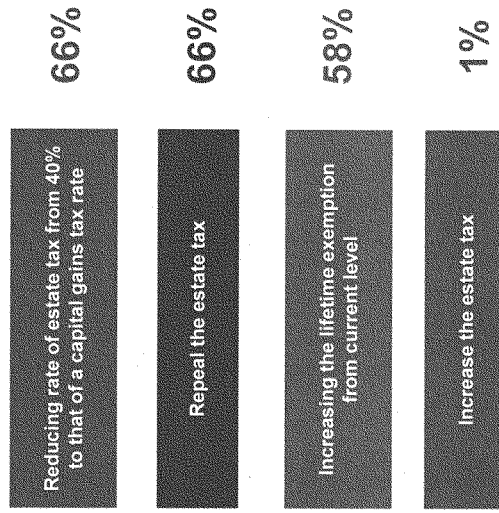
- Lack of qualified labor, employees.
- Attracting and retaining talent.
- Offshore competition.
- Cheap priced imports from China.

Priority of Economic Public Policy on Family Businesses
Top 2-box, 5-pt. scale, n=210



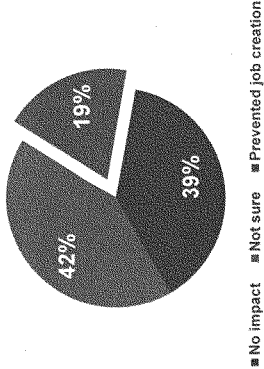
Estate Tax Provisions Supported

Would you support any of the estate tax provisions below? *Select all that apply.*
n=207



8% support none of the above provisions.

Impact of Estate Tax on Job Creation
n=211

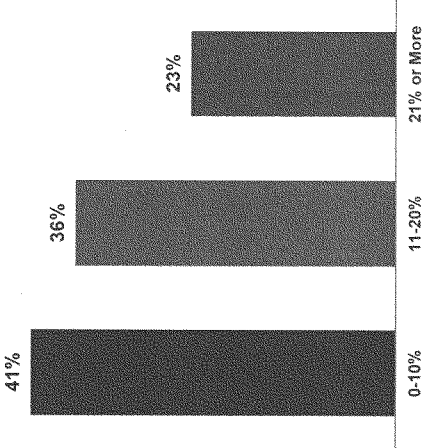


Planning for estate taxes affects business owners' ability to add jobs.
n=32

Average annual number of jobs lost or not hired	290
Average annual cost of insurance to pay estate taxes	\$1,186,000
Average annual cost to plan for estate taxes	\$415,000

Amount of Time Spent Annually Planning for Estate Taxes

Among 'yes' to planning for estate taxes affects ability to add jobs: n=39

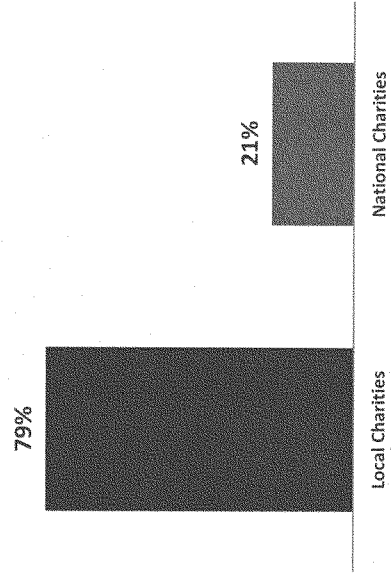


What would you like lawmakers to know about the impact of estate taxes on your business?

- "Death taxes are inherently unfair, stifle economic growth, and **only create opportunities for loophole seeking insurance agents in combination with attorneys and accountants.**"
- "They **constrain our desire** to grow the business."
- "Estate taxes **disproportionately affect family businesses** including the ability of family businesses to grow, to add jobs, and to contribute to the community."
- "**It's double taxation.** Our family has paid 30 to 40 % of our annual income in taxes for 50 years and than to have another layer of tax at death is double taxation. We have invested 20 to 30 percent for 100 years of our capital in new ventures and have created thousand of jobs. Providing incentives for capital formation is what makes United States innovation the best in the world."
- "**Why grow a business if it is going to be taken from you on your passing.** I am not working for lawmakers I am working for myself and my family."
- "**Death taxes could cripple our business at a time when it would already be under duress,** leading to job losses and lack of family influence on generational/ long term decisions that would more highly benefit our community."
- "Forcing a divestiture of the business to pay estate taxes is **putting a lot of jobs at risk, and also not allowing us to make strategic acquisitions that would help us grow.** Most of the value of a business is not liquid thus you cannot just come up with it. If a business was owned by a bank, would the bank have to pay taxes of an equal value if it changed its name or was acquired by another bank?"
- "It diverts attention from growing our business and adding net new jobs in communities we do business in. It also **makes it more challenging to compete with foreign entities** who do business in the United States as well as any entity that doesn't need to focus on estate taxes."
- "If the rate was not confiscatory **we could spend less time and more energy into growing the business, creating more taxable revenue for the Treasury.**"

PHILANTHROPY

Allocation of Contributions to Charities: Local vs. National
 Among those who contribute to charities; n=162



What is the greatest obstacle to job creation for your company?

- "Finding qualified candidates."
- "Availability of skills and personal qualities."
- "Communicating the value and importance of a "field operations" role. The college-educated millennial generation want to be working in the office primarily and not "on a construction site".
- "As an old (116 years old) firm in the transportation and warehouse industry we are saddled with being Teamster Union which is not seen in today's world as a positive."
- "Conflicting, overlapping, and burdensome regulations."
- "Costs of employing people from health care to wages and other benefits. In addition other regulations that may be imposed on top of the increasing costs of employing people."
- "Determining if it makes financial sense."
- "Federal and State tax increases. Are not able to invest in the business because of the increases, and there are no incentives or deductions to help that."
- "Offshore competition and availability of low level productive workers in the US that allow us to compete."
- "Technology taking over certain disciplines of our service offering."

Mission and Approach

Family Enterprise USA (FEUSA) is dedicated to educating the public and legislators about the implications of public policy upon closely held and family-owned businesses. FEUSA conducts non-partisan research that highlights the contributions of family enterprise to the American economy and the challenges these businesses face, which is then used to educate legislators, policy makers and the public on the important role of family businesses in the economy and local communities. FEUSA's membership consists solely of, and supported by, family businesses with the single purpose of promoting family business in America, so they can continue to grow, thrive and add jobs.

Impact; FEUSA Annual Family Business Survey

Through its annual Family Business Survey, FEUSA has distinguished itself as an expert in data collection on family business across the United States.

Focus

- In the US, family firms generate 64% of GDP or \$5.9 trillion and 82 million jobs or 62% of domestic employment
- 78% of new job creation stems from family owned firms
- 35% of Fortune 500 companies are family-owned or controlled
- Family firms have higher employee retention rates than non-family firms

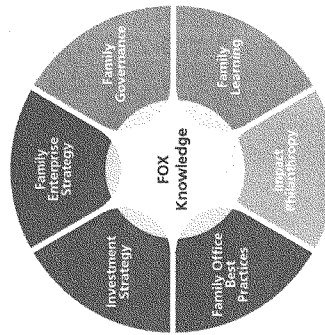
For more information visit www.familyenterpriseusa.com

About Family Office Exchange

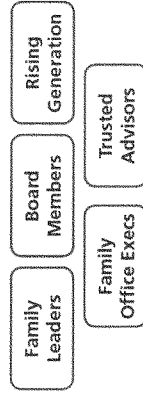
Family Office Exchange (FOX) is the world's most respected peer-to-peer network for ultra-wealthy family enterprises, their family offices, and their trusted advisors. Working every day with the world's leading families, FOX has become a thought leader on family enterprise strategy, family governance, investment strategy, family office best practices, family learning, impact philanthropy, and advisor partnerships. Established in 1989, FOX is based in Chicago with offices in New York, San Francisco, Madrid, and Sydney and has a professional staff of 45.

FOX members come from 20 countries and include 375 ultra-wealthy families and 110 multi-family offices (MFOs) and advisory firms. Our global community is made up of more than 6,000 individuals.

What FOX is Known For



Who Belongs to FOX?



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3M, in the groove as global economy thrives, raises outlook on tax-law gains - StarTribune.com

BUSINESS

3M, in the groove as global economy thrives, raises outlook on tax-law gains

Strong fourth quarter, tax savings drive optimistic outlook for coming year.

By Dee DePass (<http://www.startribune.com/dee-depass/10644746/>) Star Tribune

JANUARY 25, 2018 -- 9:08PM

The accelerating global economy lifted 3M Co.'s sales and profits past expectations, and executives on Thursday raised their outlook for 2018, in part because of future savings that are expected from the new federal tax law.

The Maplewood conglomerate's fourth-quarter profit fell, however, as it accounted for the revaluation of taxes it previously deferred. Not counting that expense, 3M's fourth-quarter profits rose 12 percent as it saw improvements from all five of its businesses.

"3M had a strong finish to 2017, delivering robust organic growth across all business groups and all geographic areas," Chief Executive Inge Thulin told investors during a conference call Thursday.

The company's shares, which have played a big role in powering the Dow Jones Industrials index higher over the past year, jumped nearly 2 percent to a new record. 3M and Caterpillar stocks were among manufacturers driving up the Dow Thursday.

3M said its tax rate under the new "Tax Cuts and Jobs Act" will fall to 20 percent to 22 percent in 2018, down from a prior rate of 26 percent to 27 percent. Executives said they will use the savings to boost returns for shareholders, increase pension reserves and to invest in the company.

With the savings, executives said the company's 2018 full-year profit will be in a range of \$10.20 to \$10.70 a share, up from its prior guidance of \$9.60 to \$10. The company finished 2017 with a full-year profit of \$7.93 a share, or \$9.17 a share excluding the tax-related charge.

The company's board approved a 16 percent increase in shareholder dividends for the first quarter of 2018. During the fourth quarter of 2017, 3M paid shareholders \$699 million in dividends and repurchased \$504 million of its own shares. 3M also contributed \$600 million to its U.S. pension plan.

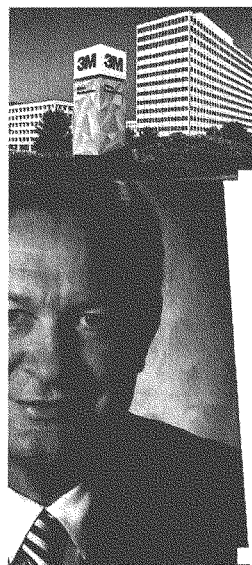
"Over the last several years, we have accelerated investments in the business, including stepping up research and development and our commercialization efforts, which is evident in our strong results," Thulin said.

The company invested 6 percent of sales, or \$1.9 billion, in R&D in 2017 and "will increase investments further" in 2018, Thulin said.

3M said it earned \$525 million, or 85 cents a share, in the last three months of 2017. That's down from \$1.2 billion, or \$1.88 a share, in the same period a year ago. Not counting the tax expense, the company earned \$2.10 a share in the latest period, beating analysts' forecast average of \$2.03.

Fourth-quarter sales rose 9 percent to \$7.99 billion, also exceeding analysts' forecast of \$7.88 billion.

The company's biggest unit, Industrial, posted sales of \$2.7 billion that rose 7 percent, and operating income of \$527 million, which was down 5.5 percent. Thulin noted that the unit benefited from strong demand from auto, aerospace and industrial adhesives customers.



Thulin

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3M, in the groove as global economy thrives, raises outlook on tax-law gains - StarTribune.com

The company's star performer during the quarter, however, was the Safety and Graphics division. Its sales jumped 15 percent to \$1.5 billion, while operating profits surged 50 percent to \$406 million.

Health Care quarterly sales rose 6 percent to \$1.5 billion with input from food safety and medical-records systems.

3M's once ailing Electronics and Energy business saw sales rise 12.5 percent to \$1.3 billion amid growing demand for electronics and display material products. 3M's Consumer unit saw sales rise 7 percent to \$1.2 billion.

3M bought Scott Safety during the fourth quarter for \$2 billion and divested four "non-core" businesses, moves expected to strengthen future performance.

While the new change in tax law will also help future results, it caused 3M to record a "net tax expense" in the fourth quarter of \$762 million, or \$1.25 per share. The expense included a "one-time transition-tax on unremitted foreign earnings as well as true ups of tax deferred assets and liabilities," CFO Nick Gangestad explained to analysts on Thursday's conference call.

Jim Corridore, analyst at CFRA Research, boosted his 3M earnings estimate for 2018 but maintained his "hold" rating of the stock. He acknowledged 3M's "accelerating revenue growth," but said he believed 3M's stock was already at a "premium valuation."

Dee DePass is a business reporter for the Star Tribune. She spent the last four years covering Minnesota's manufacturing and mining industries. She previously covered the economy, workplace issues and banking.

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Local business leaders see benefits from tax bill



(<https://www.albertleatribune.com/author/samwilmes/>)
 By Sam Wilmes (<https://www.albertleatribune.com/author/samwilmes/>)
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Albert Lea business leaders said the recently passed tax bill is helping them invest in their organizations.

The tax bill passed in December cut the top federal tax rate to 21 percent from 35 percent, likely putting billions of dollars in the pockets of major Minnesota companies.

Albert Lea Public Warehouse Owner Al Larson gave each of his 12 employees a \$2,000 bonus, which he said would not have been possible without reduced rates. He said he decided to pay the bonuses in January to help the workers pay off costs incurred during the Christmas season.

"I just distributed it back to them," he said.

In addition to bonuses, Larson is installing two roofs and investing in new dock levelers.

Larson said he prefers investing company revenue locally instead of contributing more of a percentage to the federal government.

According to Reuters, in passing the legislation, Republicans sealed President Donald Trump's first major legislative victory since he took office last January and steamrolled opposition from Democrats to pass the bill, which slashed taxes for corporations and the wealthy while giving mixed temporary tax relief to middle-class Americans.

1/3

In addition to cutting the corporate income tax rate, the legislation gave other business owners a new 20-percent deduction on business income and reshaped how the government taxes multinational corporations along the lines that the country's largest businesses have recommended for years.

According to Reuters, Democrats were united in opposition to the tax legislation, calling it a giveaway to the wealthy that will widen the income gap between rich and poor, while adding \$1.5 trillion over the next decade to the \$20 trillion national debt. Trump promised during the campaign that he would eliminate the national debt.

Mrs. Gerry's CEO Chad Vogt said the tax relief package would probably result in more dollars for the company that employs more than 200 people to expand, including for new equipment and other steps to increase sales.

Vogt said the company has given its employees bonuses for a decade before the tax package was passed.

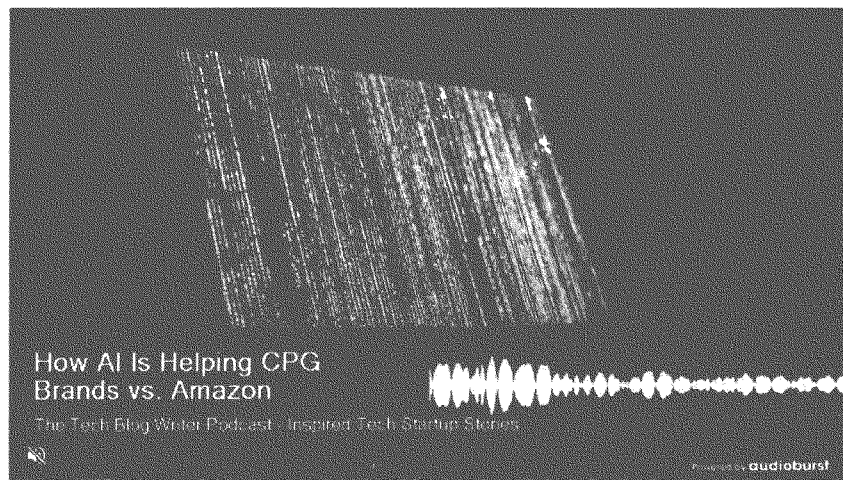
"We've always taken care of our employees," he said.

The tax bill is also credited with helping Walmart raise entry-level wages for U.S. hourly employees to \$11 an hour in February, even though the organization announced it would close more than 60 Sam's Club stores.

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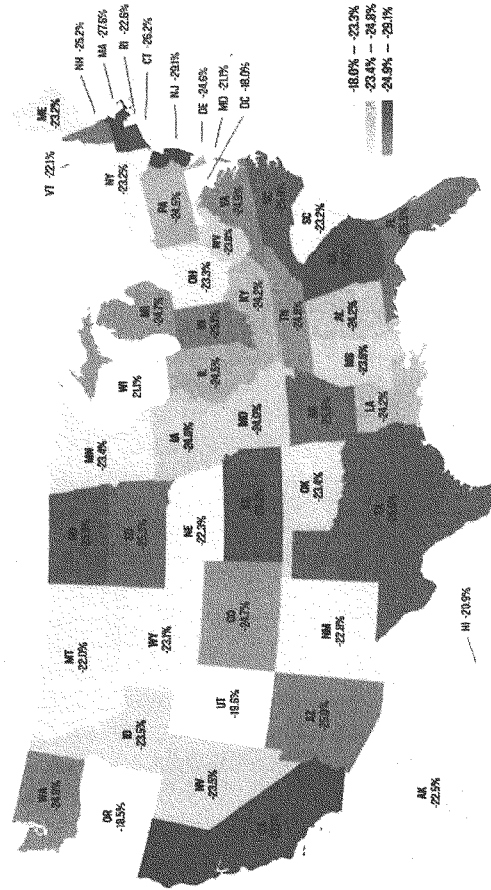
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Hormel to give employees stock shares, increase wages

By Jeff Kiger jkiger@postbulletin.com Feb 22, 2018

James Snee

AUSTIN — Hormel Foods Corp. this morning announced that it plans to use savings from the federal Tax Cuts and Jobs Act to award stock options to its employees and raise starting wages to \$13 an hour.

Hormel announced the new employee benefits as part of a first-quarter earnings report. It operates on a fiscal year that starts in November, so the first quarter included performance from November, December and January.

"Tax reform will have a clear benefit to all Hormel Foods stakeholders — our shareholders, our employees, and the communities in which we operate," Hormel President and CEO Jim Snee said in the announcement. "The ongoing cash tax benefit will provide additional funds, allowing us to accelerate the growth of our business."

"We intend to make additional strategic, disciplined capital investments into innovation, technology, and automation, which will improve our operating efficiencies and enhance margins," he added. "We also plan to invest a portion of the tax benefit back into our business to drive incremental sales and earnings growth."

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Hormel stated that the Tax Cuts and Jobs Act signed by President Donald Trump in December saved the Fortune 500 company \$63 million in the first quarter of the year, and it will inject an estimated \$110 to \$140 million to cash flow in fiscal 2018. The cuts dropped the company's effective tax rate for the first quarter to 0.6 percent from 33.7 percent for the same quarter in 2017.

Snee also announced that Hormel will continue to raise its starting wages following the \$13 an hour increase. The company plans to bump the starting wage to \$14 an hour by the end of fiscal 2020.

"We also pledged an additional \$25 million in donations over the next five years as supporting our communities through product and monetary donations is important to us," he added.

Hormel also expects to pass some of the tax savings on to its shareholders. Long known as a strong income generator for investors, Hormel has provided dividend increases for 52 consecutive years.

The Austin company issued a similar employee benefit in 2007, when it awarded more than 18,000 workers stock options for 100 shares each as a long-term investment in Hormel.

For the first quarter, Hormel saw its net earnings before income taxes fall to \$305.7 million from \$355.6 million in for the same quarter in 2017. However, the tax cuts and growth from some of segments pushed its diluted net earnings per share to 0.56 from 0.44 the previous year.

"We are pleased to report a strong quarter of earnings growth," Snee said. "In addition to the benefit from tax reform, Grocery Products delivered excellent earnings growth, which was partially offset by continued challenges at Jennie-O Turkey Store and higher-than-expected freight costs."

Hormel also spotlighted the creation of its new deli division in its Refrigerated Foods segment, describing it as the company's "next growth engine."

Looking to the rest of the year, Snee wrote that while the tax cuts will be helpful, it won't all be smooth sailing.

"Fiscal 2018 brings both opportunities and challenges. Tax reform will have a clear benefit and allow us to increase investments into our business to drive long-term profitable growth," Snee said. "While our expectations for Grocery Products, Refrigerated Foods and International have not changed, we project a slower-than expected recovery at Jennie-O Turkey Store as we continue to work through a

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difficult operating environment in the turkey industry. Freight costs will continue to be a headwind for the balance of the year, and we are working to mitigate the impact through long-term sustainable solutions across our entire supply chain."

Hormel revised its earnings per share outlook for 2018 to \$1.81-\$1.95 from its previous estimates of \$1.62-\$1.72. However, its net sales estimates remained at \$9.7 billion-\$10.1 billion.

Hormel First Quarter highlights

- Diluted earnings per share of \$0.56, up 27 percent.
- Sales of \$2.3 billion, up 2 percent.
- Volume of 1.2 billion pounds, down 4 percent.
- Earnings before income taxes of \$305.1 million, down 14 percent.
- Cash flow from operations of \$304 million, up 56 percent.

Jeff Kiger

Business Reporter

Jeff has worked at newspapers as a reporter, columnist, editor, photographer and copy editor since 1992. He started at the Post Bulletin in 1999. Kiger is the PB's business reporter and writes a daily column, "Heard on the Street."

