

July 18, 2024

The Honorable Kevin Hern
Chair
Global Competitiveness Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Blake Moore
Vice Chair
Global Competitiveness Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Mike Kelly
Global Competitiveness Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Ron Estes
Global Competitiveness Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Carol Miller
Global Competitiveness Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Randy Feenstra
Global Competitiveness Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chair Hern, Vice Chair Moore, and Representatives Kelly, Estes, Miller, and Feenstra:

We the undersigned organizations, representing millions of small businesses in virtually every industry and community nationwide, are grateful for the opportunity to submit comments to the Ways and Means Republican Tax Teams outlining our priorities leading up to the 2025 tax debate.

Put simply, small business is big business. Collectively, small businesses represent over 99 percent of all private companies, supply roughly half of all private sector jobs, and are a primary driver of economic growth nationwide. Our members are at the heart of their local communities, making notable, high-impact contributions to the economy, spurring U.S. innovation, and weaving the fabric of countless Main Streets across America.

While the small business community's tax priorities are as diverse as the entities which comprise it, we write today to strongly encourage lawmakers to take action on two pro-growth policies: extension of the Section 199A deduction and the reinstatement of the Section 174 Research & Experimentation (R&E) expensing regime. As representatives of the small business community, we believe that these provisions are critical to maintaining and enhancing the vitality of small businesses across the United States.

Section 199A, which provides a 20 percent deduction for qualified business income, is a vital tax benefit for small businesses, and enables our members to reinvest in their operations, expand, and remain competitive. Section 199A represents Congress' acknowledgment of a fundamental reality of America's business environment and tax regime: small passthrough entities (which represent the vast majority of small companies) operate very differently than corporate behemoths, and need careful consideration in tax negotiation, lest their effective tax burden increase disproportionately relative to the nation's largest businesses. However, despite its vital role in ensuring a fair tax code that supports American entrepreneurship, this provision is

scheduled to expire at the end of next year; representing a significant tax hike that looms large over tens of millions of small businesses.

This tax hike does not exist in a vacuum. Whereas small businesses are forced to contend with the loss of Section 199A, the 21 percent rate paid by large corporations remains a permanent fixture of the tax code. Should the 199A deduction be allowed to expire, it will be extremely difficult – if not impossible – for millions of small businesses to remain competitive. Moreover, the individual rates are also set to increase, meaning that a small business owner whose business currently qualifies for 199A relief will see a one-two punch of tax hikes. The natural consequence of a tax system that so disproportionately favors large companies over their smaller counterparts is dire and fundamentally puts the needs of Wall Street over Main Street.

Similarly, the immediate expensing of R&E costs under Section 174 is essential for fostering innovation within small businesses. The ability to deduct research and experimentation expenses in full allows small businesses to invest in new technologies, improve products and services, and stay ahead in a competitive market. This provision is crucial for maintaining the innovative edge that small businesses bring to the economy.

One overlooked aspect of the shift from full expensing to multi-year amortization under Section 174 is the fact that seemingly ordinary business expenses are captured by the new regime. Activities such as process improvements, software development, project management, and other routine expenses are captured by these punitive requirements, meaning businesses of all shapes and sizes are harmed. Returning to the decades-old standard of immediate expensing would end this backdoor tax hike, and give small businesses the certainty they need to operate.

Moving forward, as we approach 2025 when many important provisions are set to expire, we believe it is imperative that small companies have a central role in the discussion. Our voices must be heard to ensure that tax policies are designed to support and bolster the engine of our economy – small businesses.

In conclusion, as you consider ways to make the existing tax code simpler and fairer, we especially urge you to support the extension of Section 199A and the allowance of full expensing of R&E costs. These provisions are not merely tax benefits; they are essential to the sustainability and growth of small businesses. By ensuring their continuation, we can collectively support the backbone of the American economy and ensure continued job creation and economic growth.

Sincerely,

National Small Business Association (NSBA)
National Association of Women Business Owners (NAWBO)
Women Impacting Public Policy (WIPP)
National Association for the Self-Employed (NASE)
Small Business & Entrepreneurship Council