



COMMITTEE ON
WAYS AND MEANS
CHAIRMAN DAVE CAMP

Testimony of Ways and Means Committee Chairman Dave Camp (R-MI)
House Small Business Committee
Small Business Tax Reform: Growth Through Simplicity
Wednesday, April 10, 2013
(Remarks as prepared)

Good afternoon Chairman Graves, Ranking Member Velazquez and Members of the House Small Business Committee. I'd like to take a moment to thank those small business owners who will appear on the next panel. I won't be able to stay for your testimony, but I thank you for taking time away from your businesses to be here today. You have first-hand knowledge of just how broken our tax code is; how much time, energy and money it takes to comply with; and what that means for you and your employees – fewer resources to grow your business, hire new workers, or help provide better benefits. You need and deserve a tax code that works for you. So, I appreciate you coming to share your ideas and adding your voice to the dialogue.

In preparation for today's hearing, I did a little bit of research. The last Ways and Means Committee Chairman to testify before the Small Business Committee was Chairman Ullman in September 1979. It was nearly that long ago that Congress reformed the tax code. Instead of making the tax code better, Congress has spent the last 27 years adding special provisions, making the code less effective and less efficient. That is something we must correct, especially for America's small businesses and their workers.

More Americans get their paycheck from small businesses than any other type of business or government. If we really want to strengthen our economy and put more money in the pockets of American workers, we must fix the tax code and how it treats small businesses.

Last month, I released a discussion draft aimed at creating a simpler and fairer tax code for small businesses. This discussion draft is part of a broader, comprehensive tax reform package that significantly lowers rates for individuals, small businesses and corporations. The goal of the draft is to spur greater job creation and higher wages by reducing the burden the tax code imposes on small businesses.

According to the National Federation of Independent Business, tax compliance costs are 65 percent higher for small businesses than for big businesses, costing small business owners \$18 billion to \$19 billion per year. In addition, nearly nine out of ten small businesses rely on outside tax preparers.

With about half of the private sector workforce employed by a small business – nearly 60 million Americans – these costs, along with Federal tax rates as high as 44.6 percent, are especially burdensome for a sector that has long been responsible for leading the nation out of economic downturns.

The discussion draft includes a number of core provisions that are designed to simplify tax compliance for small businesses, whether organized as sole proprietorships, partnerships, LLCs, or corporations. These proposals are not partisan. Democrats and Republicans have championed these ideas, and small business organizations across the country have supported them. The core provisions in the draft would:

- Spur investment in equipment needed to grow business operations by providing permanent expensing of investments and property under section 179 of the tax code;
- Simplify tax and accounting practices by expanding the use of the simpler “cash accounting” method to businesses with gross receipts of \$10 million or less;
- Provide relief for start-up and organizational costs by establishing a unified deduction for these expenses; and
- Make tax compliance easier for partners and S corporation shareholders by reordering and simplifying the due dates of tax returns for partners and S corporations.

In addition, the discussion draft includes two separate options designed to achieve greater uniformity between the two main types of pass-through entities: S corporations and partnerships.

Option 1 is an incremental approach that improves the ability of S corporations to compete, grow and gain access to capital by modernizing current tax rules affecting S corporations and partnerships.

Option 2 is a more transformative approach that simplifies the tax treatment of non-publicly traded companies by repealing existing tax rules governing partnerships and S corporations and replacing those rules with a new unified pass-through regime.

Since we released the discussion draft, we have actively sought feedback from the small business community. The International Franchise Association, for instance, has said that “the proposal would reduce compliance costs and provide greater certainty to the more than 8 million employees across the country who wake up every day and go to work in the franchise industry and those Americans who aspire to become franchise business owners.”

Mr. Chairman, I won't read all the comments we've received, but I do have a packet of feedback I am happy to share with the Committee Members and have included it in my formal testimony.

Simply put, the tax code ought to be easier to understand and less expensive for small businesses to comply with – because every dollar they aren't spending on taxes and tax compliance is a dollar they have to invest in equipment, start a new production line, hire a new employee or provide more in wages and benefits. That is my goal for comprehensive tax reform – a simpler, fairer tax code that leads to more jobs and higher wages.

Thank you.