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

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

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

The Economic Importance of Small Business

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

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

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

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

Supporting Small Business With Responsible Tax Policy In Challenging Economic Times

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

When asked directly about the fairness of current provisions:

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

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

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

Tax Code Complexity: A Burden on Small Businesses

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

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

Solutions for a Small Business-Centered Tax Code

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

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

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

B. Simplify the Tax Code and Reduce Compliance Burdens

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

C. Create a Small Business Standard Deduction

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

D. Establish a Tax Credit for Hiring First Employees

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

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

E. Strengthen IRS Modernization to Enforce Corporate Tax Compliance

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

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

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

Reports show measurable improvements in IRS service levels, including:

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

F. Ensure Large Corporations Pay Their Fair Share

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

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

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

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

G. Close Corporate Tax Loopholes

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

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

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

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

Conclusion

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

A small business-centered tax code would:

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

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

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

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

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[8]: Small Business for America's Future Tax Survey, December 2024-January 2025. All policy preference statistics in this section come from this source.

[9]: Small Business for America's Future Tax Survey, December 2024-January 2025. All IRS-related survey statistics in this section come from this source.

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