



**WRITTEN TESTIMONY FOR THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS**

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APRIL 18, 2023

My name is Anne Zimmerman, and I am President & CEO of Zimmerman & Co CPAs, Inc. with offices in Cincinnati and Cleveland, Ohio as well as the Co-chair of Small Business for America's Future—a national coalition of small business owners and leaders working to give the small business community a voice at every level of government. We're committed to ensuring policymakers prioritize Main Street by advancing a just and equitable economic framework that works for us, our employees, and our communities.

As a small business owner myself, I take great pleasure in supporting other small businesses in my community. Every Friday, my grandson AJ and I have a special tradition of treating ourselves to creamy whips—also known as soft serve ice cream for those not from Ohio—on our way home from school. Regrettably, we won't be able to enjoy that delightful ritual this week, as the small business we've grown fond of permanently shut its doors on Sunday.

While unfortunate, this is not uncommon. Small businesses face a critical period of vulnerability during their initial years of operation. Establishing an equitable tax code can offer the essential support they need to successfully navigate these challenging early stages. With a record 10.2 million¹ new small business starts since 2021, there's a renewed urgency to develop such a tax code to bolster their chances for success. The

¹ The White House. "Statement from President Joe Biden on Record-Setting Small Business Applications." *The White House*, 17 January 2023
<https://www.whitehouse.gov/briefing-room/statements-releases/2023/01/17/statement-from-president-joe-biden-on-record-setting-small-business-applications/>. Accessed 14 April 2023.

recent resurgence² in American entrepreneurship, reversing decades of decline³, signals a promising outlook for our economy and communities. Small businesses are vital in creating jobs, driving economic growth, and delivering essential goods and services across our nation—they indeed form the backbone of our economy. To turn this surge in entrepreneurial spirit into long-term positive economic activity, we must support new business owners during their make-or-break early years while fostering a favorable economic environment for more established businesses as they continue on their path to recovery.

A key aspect of this support should be developing a tax code that puts small businesses on a level playing field with large corporations. The Tax Cuts and Jobs Act (TCJA) has primarily benefited large corporations, while offering minor relief for small businesses. Extending those tax cuts after they expire in 2025 would permanently enshrine those tax inequities.

We can, and indeed must, do better. Small businesses do much of the heavy lifting in our economy. A recent Wall Street Journal analysis⁴ revealed that small businesses had, at the time, been responsible for all net job growth in the U.S. since the pandemic began, and they account for nearly four out of every five available job openings. This is not the first time small businesses have been the driving force behind economic recovery. Following the 2008 recession, they were responsible for creating 75% of new jobs. Small businesses have a proven history of rescuing our economy, and they deserve a tax system that levels the playing field with major corporations. Supporting the success of small businesses is not only beneficial but essential for our country's overall wellbeing.

To enable small businesses to grow and thrive, we need to implement solutions such as offering tax credits for hiring the first employee, making the first \$25,000 in profit tax-free, simplifying tax compliance, and enhancing IRS customer service.

By placing the needs of small businesses at the forefront of our tax code and political choices, we can cultivate a robust economy rooted in entrepreneurship and innovation. Making the TCJA permanent does not get us there.

² Angell, Melissa. "Small-Business Applicants Smash Another Record in 2022 as More Americans Turn to Entrepreneurship." *Inc. Magazine*, 18 January 2023
<https://www.inc.com/melissa-angell/small-business-applicants-smash-another-record-in-2022-as-more-americans-turn-to-entrepreneurship.html>

³ Naudé, Wim. "The surprising decline of entrepreneurship and innovation in the West." *Phys.org*, 8 October 2019, <https://phys.org/news/2019-10-decline-entrepreneurship-west.html>

⁴ Rabouin, Dion, and Will Crooks. "Small Businesses Keep Hiring as Fed Raises Rates to Cool Economy." *Wall Street Journal*, 25 January 2023
<https://www.wsj.com/articles/surge-in-hiring-by-small-business-complicates-feds-effort-to-cool-economy-11674627479>

A public opinion poll⁵ conducted for Small Business for America's Future by Morning Consult in 2019 found that the small business deduction in the 2017 Tax Cuts and Jobs Act has not helped the vast majority of small business owners hire, grow, or invest in their businesses, nor has it had a positive impact on their businesses' growth or profitability. The poll found that 48% of small businesses said the new tax law had no impact on their 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.

The vast majority of small business owners said the new law didn't allow them to hire more employees, give employees raises, offer employees bonuses, pay off a business loan, or invest in new equipment or construction. Additionally, the majority of respondents said they did not have an easier time filing their business taxes.

By contrast, the Tax Cuts and Jobs Act gave large corporations a tax rate of 21%, cutting their tax rate by 40% (from 35% to 21%). Much of that money did not make it down to workers or stimulate job growth as predicted.⁶ In addition, I have small business clients who are C-Corporations who actually saw their tax bill increase by 40% (from 15% to 21%) because the TCJA not only cut the top corporate rate, but it eliminated the lower graduated rates for the smallest and least profitable businesses. Pass-through businesses, representing the vast majority of small businesses, got a temporary 20% deduction— half as much as their big business competitors. It is time to undo those mistakes.

Small business owners, like most Americans, want to see corporations and the wealthy pay their fair share. This is because the vast majority of small business owners are not affected by proposed changes to the upper income tax brackets, estate taxes⁷, capital gains taxes⁸ or the corporate tax rate. In fact, 95% of small businesses are not taxed as C-corporations, and their owners are predominantly middle-class⁹ individuals. The average small business owner salary was \$66,373 in 2019, with 83% of them taking an annual salary of less than \$100,000, and 30% reporting that they take no salary at all.

⁵ *POLL New Tax Law a Dud for Small Businesses*, 10 April 2019, <https://irp-cdn.multiscreensite.com/b4559992/files/uploaded/BRTR%20Small%20Business%20Tax%20PoII%204.10.19%20FINAL.pdf>

⁶ "The TCJA 2 Years Later: Corporations, Not Workers, Are the Big Winners." *Center for American Progress*, 19 December 2019

<https://www.americanprogress.org/article/tcja-2-years-later-corporations-not-workers-big-winners/>

⁷ "Wealth Transfer Taxes: Who pays the estate tax?" *Tax Policy Center*

<https://www.taxpolicycenter.org/briefing-book/who-pays-estate-tax>. Accessed 14 April 2023.

⁸ "White House: 400 wealthiest families paid average tax rate of 8.2 percent." *The Hill*, 23 September 2021,

<https://thehill.com/policy/finance/573596-white-house-400-wealthiest-families-paid-average-tax-rate-of-82-percent>

⁹ "What Is the Average Small Business Owner Salary in the U.S.?" *Fundera*, 11 November 2020, <https://www.fundera.com/blog/study-finds-business-owners-earn-less>. Accessed 14 April 2023.

These small business owners consistently express the belief that large corporations do not pay their fair share and desire a tax code that levels the playing field. This perspective is understandable, as the issues faced by companies like Amazon and a family-run pizza shop on the corner come Tax Day are vastly different. Small Business for America's Future has surveyed small business owners about their attitudes toward taxes since 2017, and one survey¹⁰ of more than 1,000 small business owners is representative of the responses we typically receive:

- 72% believe that the current tax code favors large corporations
- 75% do not believe that large corporations pay their fair share of taxes
- 76% agree that small businesses are harmed when corporations use loopholes to avoid paying taxes
- 60% support partially rolling back the 40% corporate tax cuts given to large companies in 2017
- 51% say raising taxes on Americans making more than \$400,000 would not harm small businesses

If we genuinely want to support small businesses, we must avoid taking the easy route by merely extending the TCJA. Instead, our policymakers should do the hard work to develop a tax code that actually benefits small businesses rather than giving them a token deduction. There is no reason for the tax code to favor large corporations. Given the potential for job creation and economic activity in every community across the country to be had by empowering small businesses, the tax code can and should be designed to help our Main Street entrepreneurs thrive. Here are a few suggestions on crafting a tax code that will foster small business success:

- Create a tax credit for hiring the first employee, fostering job growth
 - Giving new businesses a tax credit for their first employee hired will help them scale and overcome obstacles to hiring while trying to get footing as a new business.
- Make the first \$25,000 in profit tax-free to strengthen truly small businesses
 - Creating a standard deduction of \$25,000 for small businesses would allow the owner more time to work to get the business off the ground rather than having to keep detailed expense records in their early days.
- Rebalance the TCJA tax cuts
 - Restore a small portion of big businesses' 40% cuts to equalize small businesses 20% cuts and make them all permanent.

¹⁰ Survey: *Small Business Owners Strongly Support American Rescue Plan & Corporate Tax Increase to Spur Economic Recovery*, 13 May 2021, <https://irp.cdn-website.com/b4559992/files/uploaded/SBAF%20Tax%20Survey%20May%202021%20--%20FINAL.pdf>.

- Simplify tax compliance and improve IRS customer service
 - It's no secret that the IRS needs better customer service. When I began practicing tax accounting, the IRS would answer the phone and discuss a topic in the tax code and how we were interpreting it in our reporting. That no longer exists. The IRS will only tell a taxpayer if they have filed, the status of their return, what payments have been posted to their account, and other administrative items. A taxpayer now has to be in appeals or in court with the IRS before an agent will have any discussion with them about the law and whether they believe the taxpayer complied with it. The IRS funding in the Inflation Reduction Act will add human power and technology to boost customer service that will help small business owners looking to comply but in need of direction.
 - A recent study¹¹ shows that as funding for the IRS was cut over the past decade, audit rates decreased the most for taxpayers with high incomes. This will help fix that imbalance and Treasury Secretary Janet Yellen has specifically directed the agency to not utilize any additional auditing staff or resources to increase audits¹² on small businesses or households making less than \$400,000 a year.
 - Keep any changes simple enough that small business owners can understand them and increase education about the changes aimed at these owners.
 - Consider a minimum tax on corporate book income, something that would not cost most small businesses anything at all but would go a long way to equalizing the playing field.
 - These measures will help small businesses that don't have robust finance teams better navigate their taxes. Rescinding funding would do the opposite.

Another crucial area to foster small business success is to avoid destabilizing political fights. Specifically, using the debt ceiling as leverage for political gain could lead to economic fallout and jeopardize the livelihood of small business owners. When political brinkmanship takes center stage, small businesses often bear the brunt of the consequences. Previous debates over the debt ceiling have resulted in increased borrowing costs, stock market volatility, and reduced consumer and business confidence. Such outcomes disproportionately affect small businesses, which typically

¹¹ "Tax Compliance: Trends of IRS Audit Rates and Results for Individual Taxpayers by Income." GAO, 17 May 2022, <https://www.gao.gov/products/gao-22-104960>

¹² "Five Truths About How The Inflation Reduction Act Will Help Small Business And Working Families." *Forbes*, August 2022, <https://www.forbes.com/sites/rhettbuttle/2022/08/15/five-truths-about-how-the-inflation-reduction-act-will-help-small-business-and-working-families/?sh=66447be5482c>. Accessed 14 April 2023.

have fewer resources to weather economic uncertainty compared to their larger counterparts.

As the economy shows signs of progress and recovery, lawmakers must prioritize bipartisanship and responsibly address the debt ceiling issue to prevent potential economic damage, especially for small businesses. A stable economic environment is crucial for small businesses to thrive, create jobs, and drive innovation. By avoiding the use of the debt ceiling as a political weapon, Congress can provide a more predictable landscape for small business owners to plan, invest, and grow.

In conclusion, I urge Congress to do the hard but necessary work of creating a more equitable tax system that supports small businesses and fosters a stable economic environment rather than taking the easy route of making a bad tax law permanent. As we continue to recover from the pandemic, it is more important than ever that our lawmakers invest in the long-term health and strength of our economy. Ensuring the well-being of small businesses is essential to this endeavor—and essential to making sure creamy whip stores can keep serving up smiles. Thank you for your time and consideration.