

SMALL BUSINESS TAX REFORM: MODERNIZING THE CODE FOR THE NATION'S JOB CREATORS

HEARING BEFORE THE COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES ONE HUNDRED FIFTEENTH CONGRESS FIRST SESSION

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WEDNESDAY, OCTOBER 4, 2017

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 11:00 a.m., in Room 2360, Rayburn House Office Building. Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, Luetkemeyer, Brat, Knight, Blum, Comer, Bacon, Marshall, Norman, Velázquez, Evans, Murphy, Lawson, Clarke, and Schneider.

Chairman CHABOT. We want to tell everybody we appreciate them being here today. Before we begin, I wanted to briefly say this Committee continues to track the recovery efforts conducted by the SBA as a result of the hurricanes in Texas, Florida, and Puerto Rico. Those impacted are in our thoughts and our prayers. They have a long road to recovery and this Committee stands ready to assist the administration in any way possible.

Returning to today's hearing topic, I want to thank you all for being here this morning. As the discussion surrounding tax reform echo in the capital, it is paramount that part of the conversation involves the job creators themselves, the startups, the entrepreneurs, and the small businesses that transform Main Streets all across America. Too often these small businesses are at a disadvantage. Beyond overbearing regulations and healthcare issues that seem insurmountable, the United States Tax Code consistently puts obstacles in front of small businesses. Instead of dedicating time and resources to creating the next big idea, small business owners must spend inordinate amounts of time just figuring what they owe the IRS.

Not only does the Tax Code provide complexity and uncertainty to the Nation's 29 million small businesses, but it also simply has not kept pace with modern technology. Innovation is changing how companies do business and how they are interacting with customers. The sharing economy is transforming how businesses operate, from food delivery to locating a contractor to work on your home, the advanced digital economy is building momentum.

However, as the technology revolution changes business ecosystems, the Tax Code continues to hold small businesses back. That is why the ranking member and I introduced H.R. 3717, the Small Business Owners Tax Simplification Act of 2017, to update

the Tax Code for all the Nation's small businesses, entrepreneurs, and startups. H.R. 3717 aims to update the Tax Code by simplifying and modernizing approximately a dozen provisions such as realigning estimated payment deadlines and aligning the tax filing thresholds of the Form 1099-MISC and Form 1099-K forms.

Moreover, H.R. 3717 will finally address the cafeteria plan issue that many small business owners face. While they can offer cafeteria benefit plans to their employees, such as health savings accounts, too many owners cannot participate themselves. H.R. 3717 allows small business owners to both offer and participate in these pre-tax benefits. With the flexibility of the sharing economy driving some businesses, defining a worker versus an independent contractor versus an employee is critical. H.R. 3717 provides clarification as businesses navigate these important decisions by allowing companies to enter into voluntary withholding agreements and offer voluntary training without impacting worker classifications. While not exhaustive, H.R. 3717 is the result of multiple hearings and research, and it is a step in the right direction to providing equity for the Nation's small businesses.

Today, we will discuss how the Tax Code impacts small businesses and how proposed changes, like those outlined in H.R. 3717 could impact the Nation's job creators.

I appreciate all the witnesses for being here today, and as Congress debates comprehensive tax reform, your thoughts and opinions could not be more timely.

I am looking forward to your testimony, and I would now like to yield to the ranking member, Ms. Velázquez, for her opening remarks.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

I would like to start by expressing my deepest condolences to all those harmed and impacted by the shooting in Las Vegas. I also want to thank all the first responders and medical personnel that responded so quickly. And I want to also thank the chairman and echo his comments regarding the hurricane victims, and I am glad to hear your willingness to help.

Main Street is the heart of our economy and a better tax code will help it beat stronger. American small businesses have outgrown the tax code thanks in part to ever-changing technology and new forms of businesses. Small firms are a unique phenomenon because they do not fall neatly into our tax code. Some are taxed at corporate rates and others at individual rates. Some receive great benefits from provisions like Section 179 expensing. Others find more value in the startup deduction. These differences matter when we talk about small business tax reform. Unfortunately, not everyone understands such nuances. That was made abundantly clear by the framework released last week by the administration under Republican leadership. That plan ignores the fact that approximately 86 percent of pass-through entities are already taxed at rates lower than 25 percent, though we do not have a clear picture of exactly what incentives will be removed from the tax code to help pay for this costly plan. We do know that many of them will be at the expense of small firms.

That is why today's hearing is so timely. It not only gives us the opportunity to discuss tax reform from the perspective of small em-

employers, it gives this Committee a chance to show how real bipartisanship can help firms thrive. I have had the pleasure to work with the chairman on H.R. 3717, the Small Business Owners Tax Simplifications Act of 2017, and believe it does what the administration's framework did not, provide thoughtful modifications to simplify the code for our nation's entrepreneurs. H.R. 3717 considers the changing nature of our economy by allowing for more flexibility for micro entrepreneurs in the sharing economy. It is important that as this technological revolution advances, government policy keeps pace and this is a first step.

This bill also makes it easier for entrepreneurs to access healthcare and streamline reporting requirements. At first glance, these minor changes may not seem as important as lowering tax rates; however, they offer valuable targeted ways to give small employers what they have continually requested, simplicity and certainty.

Yet, we could go a step further to improve the tax code for job creators as we work toward comprehensive tax reform. Congress should look at increasing the startup deduction, to offer benefits to entrepreneurs in the service industry, and encourage clean energy investment where small innovators are leading the way.

But we cannot do this without input from small business owners. These entities are a vital part of that equation. It is my hope that today's hearing will allow us to start a dialogue and begin the bipartisan process of building a better tax framework for our country's small firms.

On that note, I thank the witnesses for testifying and providing their valuable perspective. I yield back the balance of my time. Thank you, Mr. Chairman.

Chairman CHABOT. Thank you very much. The gentlelady yields back.

And if Committee members have opening statements prepared, I would ask that they be submitted for the record.

And I would like to take just a moment to explain our lighting system and our timing system. Some of you have testified before and are familiar with this, but we basically operate under the 5-minute rule. You each get 5 minutes to testify. There is a lighting system to help you there. The yellow light will come on after 4 minutes and let you know you have a minute to wrap up and then the red light comes on. We would ask you all to stay within that timeframe if at all possible. And we also operate by the 5-minute rule, so we will ask questions after you are done and we will go back and forth between Republicans and Democrats.

And before I introduce our distinguished panel, I would like to recognize somebody who is here. I happen to have three of my college football buddies who are coming to town today, one of their wives and somebody else. And one of them is here in this room today. We were roommates our second year. His name is Bob Booth and he was a small business person in the travel industry. Bob, why do you not you stand up? Let's hear it for Bob Booth. All right.

Ms. VELAZQUEZ. Was he a good player?

Chairman CHABOT. New Yorker. Better high school player.

Bob and I were roommates our second year at William and Mary and the guy I was my roommate my first year is also coming and

his wife. And after my wife and I got married, we have been roommates for 44 years now. So there you go.

So our first witness here on the panel will be Kristie Arslan. Ms. Arslan is the small business counsel and the entrepreneur-in-residence at the Small Business and Enterprise Council. She previously served as executive director of Women Impacting Public Policy and president and CEO of the National Association of the Self-employed. Ms. Arslan is also the owner of Popped! Republic, a small business popcorn company in Virginia. We appreciate you being here today.

And we would also like to introduce the second witness who is Taylor Wyatt. Ms. Wyatt is the president of MotionMobs, a small custom design and application developer in Birmingham, Alabama with six employees. Ms. Wyatt is very active on numerous boards in the Birmingham area and on the verge of launching a new start-up. We thank you also for joining us here today and I hope that you will share with the Committee a little bit more about your new venture.

And I would now like to yield to Ms. Velázquez to introduce our second two witnesses.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. It is my pleasure to introduce Mr. Miguel Centeno, partner of Shared Economy CPA. After 6 years as a tax consultant, he left management at a Big Four accounting firm to provide consulting services to micro entrepreneurs. Shared Economy CPA provides tax preparation services to 1099 independent contractors and those working in the sharing economy. Mr. Centeno, is an enrolled agent and represents taxpayers before the IRS and the U.S. Tax Court. He holds a B.S. in Economics and B.A. in Political Science and Government from Loyola Marymount University. Welcome.

And then I will introduce——

Chairman CHABOT. Sure.

Ms. VELAZQUEZ. And it is my pleasure to introduce Ms. Caroline Bruckner, managing director at the Kogod Tax Policy Center and Executive in Residence for Accounting and Taxation at the Kogod School of Business at American University. In this role, she has worked to release groundbreaking research on tax challenges facing the sharing economy and female entrepreneurs. Prior to her work, Ms. Bruckner was chief counsel for the Senate Committee on Small Business & Entrepreneurship and a senior associate at PricewaterhouseCoopers. She holds a law degree from George Mason University School of Law, a Tax LLM from Georgetown University Law Center, and a degree in Political Science from Emory University. Welcome.

Chairman CHABOT. Thank you very much. You are all welcome. And Ms. Arslan, you are recognized for 5 minutes.

STATEMENTS OF KRISTIE ARSLAN, ENTREPRENEUR-IN-RESIDENCE AND SMALL BUSINESS COUNSEL, SMALL BUSINESS & ENTREPRENEURSHIP COUNCIL; TAYLOR WYATT, PRESIDENT, MOTIONMOBS; MIGUEL CENTENO, PARTNER, SHARED ECONOMY CPA; CAROLINE BRUCKNER, MANAGING DIRECTOR, KOGOD TAX POLICY CENTER, EXECUTIVE-IN-RESIDENCE, ACCOUNTING AND TAXATION, KOGOD SCHOOL OF BUSINESS, AMERICAN UNIVERSITY

STATEMENT OF KRISTIE ARSLAN

Ms. ARSLAN. Thank you. Thank you, chairman, ranking member and all of the members of the Committee for allowing me to be here today to talk about this important issue. I am here today on behalf of the Small Business Entrepreneurship Council. I am currently their entrepreneur-in-residence, and as mentioned, I am also the co-owner of Popped! Republic Gourmet Popcorn, a gourmet popcorn company that I started with my husband about 5 years ago. So I always like to say I took all of my expertise and I now am an actual small business owner.

AS many of you know, SBE Council has been around for over 25 years advocating on behalf of small businesses. We are an advocacy, education, and research organization, and we really work to create an ecosystem that allows for both entrepreneurs and small businesses to start and grow. We have a nationwide network of over 100,000 members, and tax reform, as you know, is one of the top issues that are facing all of our members and small businesses at large at all phases of their business lifecycle. And working on tax reform will have a positive impact on the economy and their businesses.

I always say, you know, in my time both as a policy expert and also now as a small business owner working with a lot of other small business owners, the great unifier amongst businesses big and small is their ire for the U.S. Tax Code, and also the anxiety derived from three simple words, the IRS. You can talk to any business. I have talked to businesses big and small and their biggest fear is getting a letter that says IRS on it.

We really believe that the U.S. needs to look at the Tax Code and focus on creating a Tax Code that will encourage investment and growth, that fosters new business creation, and also alleviates the excessive compliance burden that costs businesses a lot of time and a lot of money. And we think that there are three key ways to accomplish this. First, tax reform, tax simplification, and also, tax cuts.

I will first start talking a little bit about tax simplification and tax reform. I know you are all well versed in the Tax Code. There is over 2.4 million words in the Tax Code. It is so overwhelming I know for me as a business owner to try and figure out what I need to do reliably to comply with the Tax Code and ensure I am meeting all of those rules and regulations so that I do not miss something or are faced with a huge tax bill at the end of the day. And again, for the smallest businesses among us, our business, we have nine employees and then my husband and I, so 11 total. We cannot afford a fancy CFO. We cannot afford a full-time accountant on staff. We do not have someone telling us here is what you need

to do or how to structure your business so you can maximize the tax code and tax benefits. We do not have someone monitoring small business tax policy or new rules coming down the pike that can forewarn us about how we need to do something. We are often left being reactive like many other small business owners when we would love to be proactive when it comes to taxes and tax regulations. And so we think that the current Tax Code really disadvantages small businesses and new entrepreneurs and we would like to see that change.

Again, on top of the compliance burden, the Tax Code really has not kept pace with our changing economy. Technology has been a game changer. All of you know this. We will be talking about the shared economy. But it has been a game changer in terms of the way we do business even in my little small gourmet popcorn company. With ecommerce, the exposure of ecommerce in the sharing economy, people have different types of jobs. There are different types of businesses out there. And we really need policymakers to make changes to the tax code that will really bring it into the 21st century. I think that is why your bill is so important. The Small Business Owners Tax Simplification Act really begins to take that step to simplify and also modernize based on what is truly going on out there in the economy. It brings a lot of much needed simplification.

I just want to highlight a few provisions that are going to be very important for small business owners. One, increasing the dollar thresholds required for filing 1099 forms from \$600 to \$1,500 is going to be of massive help to small business owners. It automatically for our business will cut our filing in half. So it will really help alleviate some of that compliance burden and paperwork burden on businesses and also kind of keeps pace with what is going on out there with the sharing economy. So I think that change will have a massive impact on the small business community. Aligning quarterly reporting requirements, something so simple but just helps us with planning better for small businesses will make a big difference. And I think also allowing business owners to both offer and participate in cafeteria plans would mitigate a lot of compliance challenges, but also, more importantly, considering this healthcare climate would really help expand coverage and benefit offerings in a lot of small businesses out there. So all those are great provisions, amongst a whole other host of provisions I think will be beneficial. So we are really pleased to support that bill.

Additional recommendations I have on that front is that having—

Chairman CHABOT. I will tell you what. Maybe we will get to those in your questions if it is okay.

Ms. ARSLAN. Sure. Sure.

Chairman CHABOT. If you could just wrap up.

Ms. ARSLAN. Sure. But things like looking at self-employment taxes and the threshold for that. Expanding HRAs would also be a benefit.

And then I would like to just quickly address tax cuts. I know in this budget climate we are wanting to be smart, but I think small businesses really need to look at what can we do to allow them to keep more of our money. Businesses often use their own

revenue to grow and so it is critically important that we are able to keep more of our money in order to take that next step moving forward.

Chairman CHABOT. Thank you. We will get to the rest of it in the questions.

Ms. ARSLAN. Thank you.

Chairman CHABOT. Thank you very much.

Ms. Wyatt, you are recognized for 5 minutes.

STATEMENT OF TAYLOR WYATT

Ms. WYATT. Thank you, chairman, ranking member, and all members of the Committee for the invitation to testify today. I am really pleased to support H.R. 3717. My name is Taylor Wyatt, excuse me, and I founded a software consulting and development company in Birmingham, Alabama, 7 years ago.

As both an entrepreneur and a consultant for small businesses, in my business, including startups in the sharing economy, this bill spoke to a lot of the impacts that it could have on my business and other businesses that I talk to every day.

In my experience, the Tax Code is overly complicated. Without being an expert in Tax Code and dealing with it as the Committee does, it is very complicated to stop running your business just to figure out what you need to do to comply with these regulations.

Our team has built several software products that touch, for example, payment processing components across state lines. And even trying to determine tax liability on goods and services sold across the state is very complex. And so those recommendations are really illustrative of our need to simplify things in the Tax Code and to make it easier for these businesses.

As you know, small businesses create approximately 64 percent of new private sector jobs. And the Tax Code really is not friendly for these small and medium-sized businesses. Like many businesses fewer than 10 employees, and even like Ms. Arslan mentioned with her Popped! Republic company, we do not have a department or even a person dedicated to tax filings. Making the process of paying taxes and making it more user-friendly for our team is really a great step in the right direction.

The purpose of this bill as I understand it is to modernize, clarify, and simplify provisions that apply to small businesses, and these are really laudable goals that I hope will really broaden the tax reform conversation.

A few provisions really stand out, based on my experience. Section 5 of the bill requires the IRS to perform a test to determine that a bank account belongs to the proper taxpayer before depositing a refund. Because tax fraud is so rampant, the IRS depositing a refund into the wrong account is unfortunately too common. Reclaiming the funds deposited into the wrong account takes a great deal of time and resources. Somehow, an instance a few years ago, shortly after I had started my business, I received the notice that a deposit had been made incorrectly into my own account. It was somehow corrected on its own, but if it had not been, that would have been a huge process just for me to figure out what has happened, to reach out to the right person, and to start taking the right steps to correct that issue.

Another provision in this is the welcomed proposal and extension of the cafeteria plan benefits. This is extremely important for us. As our team of six, it actually excludes half of our company from currently participating in cafeteria plans with their ownership stake. So this would immediately change the nature of our company and how we could offer those plans to our team.

The provisions, clarifying certain activities in the sharing economy that have an impact on the sharing economy is very important for us. We are getting ready to start a new startup called V2 Property Management Group and worker classification is such a huge part of the sharing economy currently and will affect us directly in this new startup. We are looking to hire workers on an as-needed basis to help manage buildings and to perform service tasks within those buildings. As part of that, we will be hiring a mix of both employees and independent contractors for those tasks, and our understanding of how these classifications work, how it impacts our business, especially as a startup so that we can appropriately project and prepare for funds is hugely important.

But it is not just important to our business. Another business in our town, in Birmingham, Alabama, is a company called Shipt that has 250 employees and they have grocery delivery independent contractors now that they may want to offer voluntary training services to without impacting those classifications. They have 250 employees but they have thousands of employees when you include their independent contractors. And for us to do like Birmingham, you can imagine how that impacts our town, how it impacts the economic development, and we intend for V2 to play that type of role in our city and want to make sure that we really understand these classifications and just the impact that it is going to have.

Thank you again for the opportunity to testify for this really important discussion and for you bringing it before us.

Chairman CHABOT. Thank you very much.

Mr. Centeno, you are recognized for 5 minutes.

STATEMENT OF MIGUEL CENTENO

Mr. CENTENO. Good morning, Honorable Congressmen and Congresswomen. I just want to take a moment to thank you for having me. It is an incredible privilege as an individual, as well as a tax partner at a CPA firm for 1099 workers.

Chairman CHABOT. Do not screw it up.

Mr. CENTENO. Well, thank you for that.

But most of all, I am excited to have the opportunity to share with you a little bit about the stories of the people I talk to every day. What is neat about it is I have gone from Big Four dealing with vice presidents in tax accounting that did not want to talk to me, to small business owners that really are looking for help and advice. And it has been overwhelming almost. I was just sharing, you know, how is business? It is too overwhelming right now because the economy is growing.

I have put some numbers in front of you just to talk about the magnitude of the industry, but if you just look at the top five companies, you are looking at a \$100 billion space. But what makes it truly remarkable in the sharing economy are the players. These are not companies that are essentially doing, although they disagree;

what they are doing is they are getting the sharers and participants to really drive the activity.

Just this morning I woke up in a home that was not my own and it was not that kind of night. I woke up in an Airbnb. Here, I got out of a car that was a complete stranger. I heard a cool story about a young lady in a graduate program at George Washington who is doing it on the side to hustle a little bit.

So if there is anything I want to do, it is to tell you a little bit about their story and kind of how their intersection with tax is going because even small businesses have more sophistication than our entrepreneur, our solo entrepreneur. That is the term that we are using to describe it.

So the sharers are really the meat of this and the numbers are incredible. The McKinsey Report suggests that one in three Americans at some level engage in independent contract work, and part of that spans the gig in the sharing economy. So what I am trying to share with you is that this affects or is going to affect a lot of people and it is not just your typical I am going to find capital and start a business person. This is somebody who gets home from work at night and is doing additional work on a platform like Upwork where they are trying to earn a little bit of cash, and lo and behold, all of a sudden they are sitting on something and they have no idea what their tax liability is. And that is where we come in.

The stories that have really moved me though are the ones of people who would not have options outside the sharing economy. A single mom in Cincinnati, Ohio, who was able to list her home and not have to find a second job and now can stay at home with her kids, or the teacher in Urban LA where I am from who is able to do ridesharing to buy the school supplies that the school does not provide for. Those are the things that move me. And what troubles me is while I cannot help, the helplessness that I am approached with is always surprising. And what can I tell them? What can I tell them that their tax breaks are? What can I tell them that the silver bullet for their tax solution is? I do not have one.

I spent many years at a big firm where I was locked up in some hole and stuck under pages of loopholes and options and structures and movements, but yet I have got nothing for the solopreneur.

This bill is important. It is important to the people I am helping, but it is important to a very large demographic in America that is everywhere. And more than anything, what I would like to say to them is, hey, this year Congress did something. I love this bill. I like it. Directionally, it is pointing in the right direction. Magnitude-wise I would be shorting myself if I did not say it did not go further. I would love to see reporting requirements come down for the 1099-K. I would like to see some standardizations for the 1099-K. It is just not enough in my eyes.

Thank you for my time. I will yield the floor.

Chairman CHABOT. Thank you very much. Appreciate it.

Ms. Bruckner, you are recognized for 5 minutes.

STATEMENT OF CAROLINE BRUCKNER

Ms. BRUCKNER. Members of the Committee and staff, thank you for the invitation to testify today. I am going to speak really fast because I have a lot to say.

My name is Caroline Bruckner and I am a tax professor at American University. I am also the managing director of the Kogard Tax Policy Center, which conducts nonpartisan policy research on tax issues specific to small businesses. I appreciate the opportunity to share my views on this bill which I worked with Committee staff to develop because it includes essential tax code changes to address sharing economy tax compliance challenges that I brought to this Committee's attention in my report, *Shortchanged: The Tax Compliance Challenges of Small Business Operators Driving the On-Demand Platform Economy*. This is a bipartisan bill proposing common sense changes to meet the needs of the growing sharing economy, as well as those of the self-employed small business owner.

Three provisions of this bill stand out as good examples of the bill's results-oriented approach. First, the changing of the due dates for quarterly estimated payments; second, the proposed alignment of the Form 1099-K and 1099-MISC filing income thresholds; and third, the reinstatement of the deduction for health insurance costs for the self-employed.

First, by updating the due dates for the second and third quarter quarterly estimated payments to be due after a quarter's end, the bill facilitates compliance because taxpayers will have better information for calculating net income, rather than having to rely on their best guess.

Second, the bill proposes long overdue updates to the Form 1099 filing thresholds. Expert economists have found that the sharing economy is the latest example of a 66 percent increase in alternative work arrangements which have almost doubled in number from 2005 to 2015. Income from a significant portion of these arrangements is tracked through Form 1099 filing. However, in *Shortchanged*, we found that 60 percent of sharing economy operators I surveyed did not have any Form 1099 for their platform income and we concluded that the \$20,200 transaction threshold for credit card payments to be the primary reason why.

In response to *Shortchanged*, the IRS and industry have acted to help taxpayers by launching the IRS Sharing Economy Tax Center on IRS.gov and some platforms have started to issue Form 1099-Ks even when not required to by law. This bill takes the next logical step by aligning the 1099 filing thresholds at \$1,500. By lowering the filing threshold for Form 1099-K, the bill works to ensure at the very least that the majority of sharing economy operators will have the tax forms they need to file their taxes. At the same time, the bill modernizes the Form 1099-MISC threshold by raising it from \$600 to \$1,500 for the first time since 1954.

By creating a uniform reporting standard for 1099-MISC and 1099-K, the bill will generate greater compliance by both taxpayers and reporting entities because more taxpayers will receive Form 1099s. It is really that simple.

Third, this bill reinstates the deduction for healthcare costs for the self-employed that was temporarily available in the 2010 Small Business Jobs Act. That had an immediate effect on the health in-

insurance costs of the self-employed small business owners. Let's return to that.

This bill is a common sense, results oriented approach to address tax challenges faced by America's small businesses, but I urge the Committee to do more. As Congress moves forward with tax reform, this Committee should consider the tax challenges faced by women business owners, 99 percent of whom are small business owners. Our latest groundbreaking research, Billion Dollar Blind Spot: How the U.S. Tax Code's Small Business Tax Expenditures Impact Women Business Owners, assessed how the Tax Code's more than \$255 billion of tax revisions designed to help small businesses grow and access capital impact women-owned firms. We found that while women-owned firms have increased in number by 45 percent, a rate five times faster than the national average, the majority of women business owners are still small businesses operating in the services industry, and they continue to have challenges growing their businesses and accessing capital. Our survey data of engaged women owners corroborated our findings and suggested, however, that when women-owned firms can take advantage of tax breaks, they do. However, more work needs to be done to understand whether or not the Tax Code is operating as Congress intended for these small businesses. In answering the questions that we raised in our research impacting millions of women business owners, we found that Congress and stakeholders had a billion dollar blind spot when it comes to understanding how pervasive the tax challenges are with respect to women-owned firms. Ultimately, we urge this Committee to work with the tax writing committees to actually hold a hearing on these issues, for the first time ever. Second, we request that this Committee work with JCT to demand estimates on how small business expenditures impact women-owned firms, for the first time ever. In addition, we request that this Committee work with the Federal Commission on evidence-based policymaking to develop strategies for developing the data we need to measure how the Tax Code does impact these small business owners.

Thank you very much for the opportunity to testify before you, and I am happy to answer any questions that you have.

Chairman CHABOT. Thank you very much. You have got 20 more seconds. Do you want to get any more words in there? That was impressive. Without doubt, in the 3 years that I have been chairman of this Committee, that is the most words in 4-1/2 minutes that we have ever gotten in. So well done.

Okay. We will move to the questioning now. And I will begin with myself. Ms. Arslan, I will go to you first.

As a small business owner, could you discuss your history and interaction, and of course, you mentioned in your testimony, but with cafeteria plans? And could you comment on H.R. 3717, the legislation that we are considering here, the impact that might have? Do you think we are heading in the right direction?

Ms. ARSLAN. I do. One of the things I did want to mention is also maybe looking at HRAs as well. One of the big challenges for us as a business, we want to offer benefits to our employees. We are looking at right now how we can do that most cost effectively. Obviously, I think, you know, in my history working on small busi-

ness policy as well as now as a small business owner, allowing the owner to actually participate in the benefit will help establish—will be more of an incentive to establish the benefit. I think for us with the cafeteria plans, allowing us to participate will help exponentially in us deciding whether we go that route. One of the challenges with cafeteria plans is the employer contribution. Our employees, our concern is our employees will not have the additional income to be able to take that money, you know, tax-free out of their check to go towards the benefits, so we are also looking at health reimbursement arrangements which are something that we as the business owner set up for them. We essentially would reimburse whatever, a set amount that we decide with the health reimbursement arrangement. So, for example, we can say we are going to give each of our employees \$500 of health expenses. They go out and, you know, go visit the doctor or pay for insurance premiums. They send us the bill or the receipt and we can expense that or reimburse them through a business expense. That for us might be the better choice because of the type of employees we have and their financial situation, so we would love to see the same change made to HRAs where the owner can participate in those as well. If you had both of those, I think you would see significant expansion and benefit opportunities for small businesses and their employees.

Chairman CHABOT. Thank you very much. I appreciate it.

Ms. Wyatt, I will go to you next. As an entrepreneur about to launch a new startup, you had mentioned the amount of time, the complexity of the tax code and how much time you have to spend doing that. And if you did not have to spend so much time doing that you could devote more time to your business and hopefully be even more successful and hopefully be able to hire more people who need jobs. Could you comment on the complexity of things and how that does impact the time that you allocate in a typical week or month or however you want to put it?

Ms. WYATT. Absolutely. It is a huge impact on time. We do not have any person on our team at MotionMobs who is dedicated to anything related to the Tax Code, tax filings, things of that issue. And so it usually affects us in two ways. It takes up our team's time to be focused on that. When an issue comes up that we have not been as proactive on because it is not a primary part of their expertise or their daily job. And in addition to that, we usually end up spending money on outside resources to help understand, to make sure that we are doing what is expected and what we need to do to help with those. Preparing to launch V2 Property Management Group, this has been a huge consideration for us because we are considering hiring a large number of both employees and independent contractors and making sure that we understand the requirements for each of the classifications is extremely important so we know going into this what the expectations are, how much time it is going to take, and what resources we need to allocate our time wisely and to make sure that we are making the correct hires in both categories.

Chairman CHABOT. Okay. Thank you very much.

And Mr. Centeno, you had mentioned in your testimony about how unique and how new businesses that you are dealing with in

the sharing economy are coming. What impact does the Tax Code as it currently exists have on these folks? How do they pay their taxes, or a lot of them maybe not pay their taxes, and that sort of thing? And what, if any, impact do you think legislation like this might help?

Mr. CENTENO. Yeah. I think the reality is that people show up and they say I just do not know. I have been a W-2 filer my whole life and you know, what do I do now that I have to track my own deductions and expenses? So for most of these filers we are talking about a Schedule C. So I think half the battle is just talking about compliance complexity, the question being how hard is it just to file under existing rules? And that seems to trip up a lot of the solopreneurs that we are talking about. And that is not even going into kind of, you know, tax benefits and where we can kind of simplify it. But I think where this bill really fits in, where it could grow is, you know, if we can update the Schedule C to actually reflect expense categories that happened in 2017, that would be a way forward. If you look at the Schedule C, tell me where to put software expense or tell me where to put any number of expenses. So I think just interpretation is one of the hiccups that someone who is not used to seeing tax language is going to get hit with.

Chairman CHABOT. Thank you very much.

Ms. Bruckner, I want to apologize to you. I did not use my time as efficiently as you did and I ran out of time, so I am going to have to call myself on that.

And the ranking member is recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Ms. Bruckner, I have held some different events and roundtables on the challenges that women business owners face in accessing capital. And I just heard you talking about how the tax code treats female entrepreneurs. I would like for you to expand on that but also do it in light of the GOP, the Republican proposal that was just released last week.

Ms. BRUCKNER. I think the first thing that we all need to take into account when we talk about the tax challenges of women business owners is that the Tax Code does not discriminate against women business owners. What we have not considered though is how women business owners have challenges accessing capital and scaling, and what we can use in our tax toolbox to help these small businesses grow because we do have small business tax provisions that are specifically designed to help small businesses grow and access capital. The challenge that I found in my research is that they are targeted to different industries and different organizational firm types than those in which women predominantly operate. So they are completely bypassing women who are typically not incorporated, like most small businesses, or women who are in primarily the services industries and not in production and construction or manufacturing. And these are issues that we have never considered because the Tax Code, in fact, does not discriminate against women business owners. But that does not mean that these policy challenges and questions are not something that Congress should consider when we know that women business owners have larger existing and pervasive problems accessing capital and trying to scale their businesses.

In terms of the tax framework, I am still reviewing the specifics of it, but one thing that I think we should all keep in mind is that because business women owners tend to have challenges scaling and growing, their receipts tend to be lower. And so 90 percent of women business owners report receipts. And that is not net; that is just receipts based on the latest commerce data of under \$100,000 a year. So they are already paying at the lower marginal rates.

Ms. VELÁZQUEZ. Thank you. Thank you.

Mr. Centeno, the 1099-MISC is used to report payments to independent contractors, but the threshold has not been adjusted since 1954. Additionally, the 1099-K is required when payments are made exceeding \$20,000 per year and for more than 200 transactions. Do the micro entrepreneurs you work with fully understand the differences between these forms and how can updating the thresholds create more simplicity for them?

Mr. CENTENO. I think the short answer is no. You know, understanding the differences only becomes necessary when it is in the mail. So I think one is what the micro entrepreneur, the solopreneur receives, and that is the 1099-K. So what we are seeing right now is a lot of confusion. Someone saying, hey, I made \$18,000 on Airbnb. I did not get anything. Do I need to report it? And I would say on the margins you are going to see under-reporting. And perhaps in the future if there is ever audit of Airbnb payouts they are going to get called back and audited. And we have seen that. We have seen someone say I did not get a 1099-K so I did not report it and now I am getting audited. What do I do?

On the 1099-MISC, I think the last update says enough. The last time it was updated was 1956?

Ms. VELAZQUEZ. 1954.

Mr. CENTENO. Who was in office?

Ms. VELAZQUEZ. I was not born. Thank you.

Ms. Arslan, Mr. Centeno, you both mentioned the self-employment threshold. Would you like to elaborate on that?

Ms. ARSLAN. Yeah, sure. So currently it is at \$400, and that threshold has also never been updated. And so if you would adjust it annually we would be around \$6,000. And so really taking a look at that, especially in light of the sharing economy, looking at what we can do to modernize that threshold I think would be significantly important for both the sharing economy and also self-employment. A lot of people, as you know, test the waters and just try and see if it is something that they are interested in doing. So let's help incentivize entrepreneurship and support the sharing economy to look at modernizing that threshold.

Ms. VELAZQUEZ. Thank you.

I yield back. Thank you.

Chairman CHABOT. The gentlelady yields back. Thank you very much.

The gentleman from Iowa, Mr. Blum, who is the chairman on the Subcommittee on Agriculture, Energy, and Trade is recognized for 5 minutes.

Mr. BLUM. Thank you, Chairman Chabot, and thank you for being here today to our witnesses.

Ms. Bruckner, you mentioned the date 1954, I believe, and it just came up again. Are you implying that 1954 was a long, long time ago? And before you answer, I was born in 1955.

Ms. BRUCKNER. So the filing threshold for 1099-MISC made its way into the code when it was revised one of the times that Congress has successfully undertaken tax reform, which was in 1954. And that is when they established the \$600 threshold, which adjusted for today's term by inflation which would be in excess of \$6,500 today.

Mr. BLUM. For the record, that is a long time ago.

The new tax reform package we introduced last week, the unified framework for it, we are debating it now, so this is very timely. One of the two major goals of this tax reform package is economic growth. We have been growing over the last 10 years at 50 percent of the post-World War II average and that hurts every small business because it is in our DNA—I am a small business person—to grow; correct? So I would like to hear from each of you if you could take about a minute each, what part of the current Tax Code do you think needs to be changed or eliminated so that small businesses can grow and we can achieve 3 percent GDP growth for our economy nationwide? What is the biggest thing?

Ms. ARSLAN. Well, I know we talked a little bit about pass-through entities. My gourmet popcorn company is a pass-through entity. We do pay taxes on the higher end, and so if we would get some sort of tax cut for pass-through entities, we would have more money in our pocket. We are currently looking to open another location. We would add anywhere from 6 to 10 new jobs with that new location. We want to fund it with our current revenue. We do not want to have to add new debt, especially because it is so challenging for a business of my size to get access to capital. Even though we launched our business with a loan and paid it off 2 years earlier, we still have trouble with banks getting additional funding to open another location. And so that money would be used for us for additional growth and job creation, so really looking at pass-through entities and what we can do on their tax rates would be really important.

I also think overall simplification. Why does it have to be so hard for us to file our taxes? Why do we have to spend the amount of time and money to comply with the code? Again, more money that could go back reinvested in our business.

Mr. BLUM. Thank you.

Ms. Wyatt?

Ms. WYATT. To focus on just one issue, worker classification I think is going to be a very important part, both in this bill and in the overall conversation. We have heard about a lot of different companies in the sharing economy today. We have talked about Airbnb and Uber and I mentioned Shipt, the company in my town, Birmingham. And my new startup, V2, all of them are working with a combination of both employees and independent contractors and the classifications are confusing for both larger companies and small businesses alike. And while Shipt, as I mentioned, has 250 employees now and over 1,000 independent contractor, they were a startup 2 years ago with just a few employees and just a few independent contractors. And looking at that growth in their busi-

ness and in many others across the country and wanting to take that on, I want to understand what we are getting into to understand these classifications better, and I think it is important for other small businesses and startup entrepreneurs to understand those classifications so they can experience that growth.

Mr. BLUM. Thank you.

Mr. Centeno?

Mr. CENTENO. I will piggyback on that a little bit. I mean, it is very important. As we start to see entities or people go from startup to scale, we see a lot of confusion around that. And we have seen business owners go to freelancers from India or overseas because they are worried having a local independent contractor is going to trigger some of the self-employment taxes.

Mr. BLUM. What is the single biggest thing in the current Tax Code that needs to be changed or eliminated to have us increase our economic growth? Single biggest thing?

Mr. CENTENO. Self-employment threshold.

Mr. BLUM. Go ahead.

Mr. CENTENO. Self-employment threshold. I think that one, especially if we have solopreneurs who are testing the water. They are getting hit and I have seen it. They say, you know what? I made 4 grand but I am getting hit at 15 percent. I am out. You just had an entrepreneur quit.

Mr. BLUM. We have 12 seconds left. Ms. Bruckner, but you speak fast, so go for it. Go for it.

Ms. BRUCKNER. I would reconsider what we can do to enhance the startup deduction. I think that that is an overlooked, underutilized. It is something that Kristie Arslan could use immediately if it was more generous to help capitalize her second location. And I think that is one of those expenditures that should remain in the code because we do have economic evidence that it is successful. I think that it is definitely the number one thing I would look at.

Mr. BLUM. Thank you. My time is expired. I yield back.

Chairman CHABOT. Thank you very much. The gentleman's time has expired.

The gentleman from Pennsylvania, Mr. Evans, who is the ranking member on the Subcommittee of Economic Growth, Tax, and Capital Access is recognized for 5 minutes.

Mr. EVANS. Thank you, Mr. Chairman.

Mr. Centeno, I want to go back to something you said earlier in terms of this bill, you would go further. Three specific ways you would say you would go further than what this bill is proposing at this point?

Mr. CENTENO. Well, I can give you one. Two might take me a little more time.

Mr. EVANS. Okay.

Mr. CENTENO. And, yeah, so I think an exemption on self-employment income would be a good way forward. \$6,500 seems to be the inflation amount that we are talking about, so that would be good directionally.

On the 1099-MISC form, we would like to see that go up. I cannot tell you how many business owners do not understand at the end of the year how much they have got to send out because they tested out three or four different independent contractors. So rais-

ing that threshold would be very powerful if done at a significant level. Increasing at the rate now, it just does not go far enough in my opinion.

Mr. EVANS. Ms. Bruckner, small firms often have the fewest resources to spend on accountants to work through complicated tax problems like workers' classification. What steps can be taken to put small businesses on a level playing field when it comes to their tax compliance?

Ms. BRUCKNER. I think that the number one thing that we can do is education outreach. Make it easier for people to access the information that they need from the IRS, and I think that if people can answer these questions by looking it up on their smartphones, which that is how most people have access to the Internet, modernizing the technology that the IRS uses to make it more easily accessible for taxpayers to answer tax questions easily and in a straightforward manner would go a long way to solving compliance problems.

Mr. EVANS. What I sense from your testimony, and you can tell me if you think I am correct, do you think the Tax Code is friendly to small businesses?

Ms. BRUCKNER. I do not think taxes are friendly to anyone. I do not like paying them myself but I do it because I am a patriotic American. And I think that I also have deep, deep concerns about our current budget picture. And what I am all about is—

Mr. EVANS. Tell me exactly what do you mean when you say "deep concerns about the budget picture"?

Ms. BRUCKNER. I have very deep concerns about our current state of our debt and deficit and the trajectory at which we are going. What I think that we can do now though to make life better for people is make it easier for people to comply with the rules as they are. I think that it is very important to focus on compliance and efficiency and making life better and making real changes that small businesses can take less time having to figure out their taxes. Making compliance challenges more efficient. Making the IRS more efficient will go a long way to addressing the hassle of paying taxes without addressing the larger question of how much we actually pay in taxes.

Mr. EVANS. Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman CHABOT. Thank you. The gentleman yields back.

The gentleman from South Carolina, Mr. Norman, is recognized for 5 minutes.

Mr. NORMAN. First of all, I want to thank you all for coming. I am going to start off with a comment and then I will ask a question.

I am a small business. I am a developer. The number one thing that you all could do as small business people and as tax preparers is tell your reps the things you are telling us. Have a group. Groups scare politicians. And I have been in the private sector. Now I am on the political end. But you can imagine the people that come to us now, all of us, with their hand out. It is the deficit that you are talking about that I am very concerned with, so what you can help us with is tell your story, get your reps in a room and tell

them you want a meeting with them. Ask them some of the very things and suggest the things you are telling us.

Let me ask, I guess, Ms. Arslan and Ms. Wyatt, when you hire people, what is the decision-making whether to hire an independent contractor versus putting them on the payroll? Is it healthcare, tort reform, or tort issues?

Ms. ARSLAN. It is labor cost. For our type of business, it is our labor cost and managing labor cost, and based on our needs. Also, the type of work we need. If we need someone who has a particular expertise, we tend to look at them more as an independent contractor, how we can hire them as a contractor, versus if we need staff to do the daily functions of our business. And that is how we make those distinctions for our business. So, for example, most of the contractors we hire have specialized skillsets. Our accountant, the person helping us with our marketing, the gentleman that handles all of the repair of our specialized equipment, those people working on our food truck. So all those people have specialized skills, so we hire them as contractors. Anyone helping us with daily operations, we hire them as employees and that helps kind of keep for us the distinction so that we do not fall into that murky gray area of 20 questions to figure out contractor or not. So that is how we make those distinctions in our business.

Ms. WYATT. For us, for the last 7 years at MotionMobs, we have paid all of our full-time employees 100 percent of their healthcare benefits for them and for their families. And what I have found is that that is very uncommon amongst other small businesses in our area and across the country. And so we are really dedicated to our staff. We really care about company culture and we care about setting good expectations when we hire employees. So if we are asking them to make a commitment to work with us and to call them after hours and to really be committed to what we are putting together, we try to show that in return. And so understanding this worker classification that I have been talking about going into this new startup, we are going to have a core set of employees who are working full time and who we are providing benefits for, and then separately, we are going to have a team that has specialized skills, and specifically is set up such that when a building needs a maintenance request, we can send that request out in an on-demand manner just like you would order a car with Uber in an on-demand manner. And therefore, we would need contractors to fulfill those requests for those tasks. In those circumstances, we are looking at them currently as independent contractors but really want to understand, for example, if we need to provide limited training on when they access someone's building and they are accessing their property and we are responsible for it. If we provide that training, does that mean that they are going to be classified as an employee? And how does that affect us as a brand new business with limited funds if our workers' classifications of hundreds of people suddenly shifts from an independent contractor to an employee classification?

I also want to point out that I understand that we do not want to impose employee-like obligations on those independent contractors such that we would just be classifying them as independent contractors to avoid something. But all of this is why we really

want to understand more about these classifications and how this bill could clarify that for our current business and our new business.

Mr. NORMAN. In the startups, or as new businesses and starting new businesses, anything that you could—where would we go, where would you advise us to go further with the Tax Code?

Ms. ARSLAN. I think that Caroline mentioned the startup deduction. I think that is important. I would love to be able to see existing businesses be able to use the startup deduction when they are opening new locations. It is a whole new business but we would have to, you know, we do not get any more tax benefit for opening up new locations. I think, again, dealing with some of the thresholds that this bill does, looking at self-employment thresholds, I think looking at tax cuts, and then simplification are all things that will help us move forward. But at the end of the day I think with the deficit in mind, I still think we need to have a tax cut that is going to incentivize entrepreneurship.

Mr. NORMAN. Right.

Ms. ARSLAN. Incentivize people wanting to start businesses and stay in small business.

Mr. NORMAN. I think my time is expired. Thank you all so much.

Chairman CHABOT. Thank you very much. The gentleman's time has expired.

The gentleman from Florida, Mr. Lawson, who is the ranking member of the Subcommittee on Health and Technology is recognized for 5 minutes.

Mr. LAWSON. Thank you. That was very interesting to hear all of you all. But I wanted to know, there is a lot of talk about small businesses in general and what the needs may be in regards to tax reform. But what consideration for microbusinesses should be taken into consideration during this discussion of tax reform? And everyone can respond to it.

Ms. BRUCKNER. I think first and foremost this bill represents some of those needs. Number one, by lowering the 1099-K threshold from \$20,000 to \$1,500 to make sure people actually get the forms that they need to file their taxes would go a long way. That could impact as many as, you know, millions and millions of people that are operating in the sharing economy. Also, raising the threshold for 1099-MISC. But I also think the allowance for the deduction for the self-employed that had been allowed under the Small Business Jobs Act in 2010, reinstating that would help small business owners who are paying for their own health insurance go a long way to deducting those costs and help make health insurance more affordable for that population.

Mr. CENTENO. Yeah, I mean, the components of filing a tax return are what you know and what you have got. Right? So being able to get the right tax form in the mail when you have done the work is part of what you have got. And the other part, I am not sure how to answer. How do you educate a country that does not include any tax or finance in education? Now, I know this is not the Education Committee, but I am seriously wondering because people ask us all the time, you know, what is the resource that we should go to? The IRS does have a new website, and we get a lot

of traffic of people finding a dead end and then coming to our website. This is really not a response to the question which is, yeah, what can be done to educate taxpayers on the minimums that they need to do? Because we have a lot of solopreneurs who just have no idea, throw their hands up and quit the business.

Ms. WYATT. I think H.R. 3717 does a lot of things and takes a lot of steps in the right direction. I am excited about some of the provisions in the bill such as the cafeteria plans and that being an option. Right now it excludes half of my team, so if this was available now this would have a huge impact on my current company, MotionMobs. And the worker classification that we have been talking about I think is really important. In terms of how you can go further, currently how it is proposed is worker classifications would be voluntary training. You could provide voluntary training to independent contractors, and in the sharing economy, like we have discussed with several companies and with my new startup, there are cases where you may want to provide training to them and make that training mandatory in certain circumstances. And so finding the right balance between mandatory training and not imposing employee-like obligations on independent contractors I think is a tough balance but something definitely to consider because it is such an important issue.

Ms. ARSLAN. As a microbusiness, I think that the Small Business Owners Tax Simplification Act is going in the right direction. I think additionally doing things like modernizing or increasing the threshold on self-employment income would go a long way for smaller businesses. Expansion of HRAs. Looking at the startup deduction, ways we can use that as well. I think all would help microbusinesses.

And I do think something that was discussed is what can we do to continue to support things like the Small Business Development Centers, Women Business Centers, because they do a lot of on-the-ground training on tax stuff during tax time on teaching these self-employed and microbusinesses on what they are responsible for, how to understand the Schedule C form. And so how can we support them better in that training and education so that smaller businesses and microbusinesses know what is required of them, and what can we do to make the IRS more responsive to questions from smaller businesses so they can clearly understand their compliance obligations?

Mr. LAWSON. My time is almost out but I wanted to know when do you make the decision about whether that employee is—how many hours can that employee work before they be considered a full-time employee in reference to someone you contract out with for tax purpose? And you might not be able to answer but, you know.

Ms. WYATT. I am not certain what the exact time is. For us, in reference to the sharing economy, I think that it is going to be for specialty skillsets. So 20 hours would be a lot during the week but I am not exactly certain what the right timeframe should be. I think it is more around what obligations are required of that contractor versus employee.

Mr. LAWSON. Okay. I yield back, Mr. Chairman.

Chairman CHABOT. Thank you very much. The gentleman's time is expired.

The gentleman from Nebraska, Mr. Bacon, is recognized for 5 minutes.

Mr. BACON. Thank you, Mr. Chairman. And I appreciate all four of you being here and your feedback on this bill.

After hearing your feedback, reading the bill, and doing the hard work the chairman and the ranking member have done on this, I will be a cosponsor as of today, so you earned my support.

I also want to support you for just your general comments today because what the four of you cumulatively have talked about is the themes that we have heard since I have been on this Committee since January. So I think we have heard from many that healthcare costs for small businesses are a top issue. We have heard red tape. And I think you mentioned it really well how hard it is to work through all the regulations and you just cannot hire someone to do this costly. I have heard about pass-through, you know, tax rates. Also, the access to capital. And those are the four common themes that we keep hearing and I think you all, three of the four of you have touched on those four.

I would like to just go back to the bigger tax law that we are working on, just get your feedback and some have here. If we lower the C corp rates to 20 percent, S corp to 25 percent, remove all of those deductions so people are paying around 25 percent or 20 depending on what you are, is this helpful?

Ms. ARSLAN. With taxes I always say "the devil is in the details". I think the framework is a great start. I do want to say, I think in terms of the business ecosystem, there is an ecosystem between large and little firms. We want large firms to be competitive because that helps our little business. We do a lot of business with big companies.

Mr. BACON. Right.

Ms. ARSLAN. And so we think it needs to be done simultaneously, both on the corporate side and the small business side. I do not think you can leave out one. But "the devil is in the details" because all these deductions matter when you are looking as a small business owner. For us, expensing, reporting requirements, thresholds, all of that matters, so we really need to see what it is going to look like at the end of the day to see how it is truly going to impact our business.

Mr. BACON. I got the impression earlier that you were paying above 25 percent.

Ms. ARSLAN. We are. Yes.

Mr. BACON. So getting this down to 25 is a good thing.

Ms. ARSLAN. On the face of it, lowering the pass-through rates would benefit our business. I would also like to see what deductions might be adjusted and how that would balance out for our business.

Mr. BACON. Okay. Any other commentary?

Ms. WYATT. The details of how it is lowered and just specifically, what tax credits are affected. Currently, approximately 64 percent of new private sector jobs are from small businesses, and I really like our return on investment on some of these tax credits.

I own an office building in Birmingham, and in our city the historic tax credit has been such a huge part of revitalizing the city.

Mr. BACON. I was a cosponsor on that, too, but you are right. That may go away with the simplification to lower the rates.

Ms. WYATT. It could. And so I think you have to look at the tax credits as the huge return on investment for small businesses and for examples like the historic tax credit as well.

Mr. BACON. Right.

Ms. WYATT. So I think it is very important to study the details, and yes, lower taxes can be great but we have to look at where it is coming from and if it is better to leave those credits in.

Mr. BACON. Thank you. Any other comments?

Mr. CENTENO. Yeah, I mean, I will say, you know, kind of the question we have in our circles is, you know, what do we give up for that?

Mr. BACON. A lot of deductions. But we will get you down to 25 or 20.

Mr. CENTENO. No, and I think anecdotally, you are going to see a lot of people, there are already a lot of S corps. You are going to see a lot of people move into S corps. Even solopreneurs. We are kind of seeing that. So when you hit a certain threshold it probably makes sense and there is probably benefit. And those are the kind of scenarios that we run. So there is certainly a benefit there.

Mr. BACON. Thank you.

Ms. Bruckner?

Ms. BRUCKNER. I think that, as Kristie said, “the devil is in the details”, and before moving forward I think that we would definitely have to have the input of the Joint Committee on Tax and CBO to see exactly how this is going to impact the debt and deficit because, remember, if we throw our debt and deficit out of whack, that does a lot of damage in terms of financing down the road for small businesses because it could have an impact on interest rates and how much interest that we are having to pay on the debt. And that is something that is of concern. As someone that worked on the Budget Control Act of 2011, I know how serious it can be when the credit rating agencies decide to take action or make commentary on our ability to pay our debts and that is something that would concern me.

Mr. BACON. With my remaining time maybe I will just focus on Ms. Arslan. I think you have already talked about healthcare a little bit. Can you talk a little bit about how the individual market has impacted your business with the ACA?

Ms. ARSLAN. Sure. We actually get our health insurance through the exchange in Virginia, and our rates have gone up every year the past three years double digit. I am literally paying almost equal to my mortgage for our health insurance for my family of four. And then every year also we have had insurers leave the exchange, so trying to figure out what the best way is to find coverage. Again, we want to make sure that our—we want that balance. We need lower costs. We want to be able to offer benefits for our employees which is why things like cafeteria plan expansion and HRA expansion would be a huge help for our business, especially if us as owners can participate in that. But what can we do to address some of the affordability costs.

Mr. BACON. Right.

Ms. ARSLAN. While also making sure that people have access to coverage.

Mr. BACON. I would love to have asked the other three of you, too, but I am out of time. Thank you.

Chairman CHABOT. Thank you very much. The gentleman's time has expired.

In closing, we want to thank the panel for your excellent testimony here this morning. And now this afternoon. I think you did a great job, and this will certainly help us not only in H.R. 3717, and we hear your support. That is the one where the ranking member and I are cosponsors of the legislation, so I think it is safe to say we probably will not necessarily completely agree with the overall tax reform that Congress is considering right now. That will be a little bit tougher one I think for both sides to come together on, but with this one we are in sync. And I think the plan is to hopefully have this included in the overall tax reform, if at all possible. So we will see how this all plays out. But thank you very much.

We 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 12:14 p.m., the Committee was adjourned.]

APPENDIX



**“Small Business Tax Reform:
Modernizing the Code for the Nation’s Job Creators”**

Written Statement for the Record

Kristie Arslan
Entrepreneur-in-Residence
Small Business & Entrepreneurship Council
And
Owner of Popped! Republic Gourmet Popcorn

Committee on Small Business
U.S. House of Representatives
The Honorable Steve Chabot, Chairman

Statement submitted on:
October 4, 2017

Chairman Chabot, Ranking Member Velazquez and Members of the Committee, thank you for allowing me to participate in this important hearing today on behalf of the Small Business & Entrepreneurship Council (SBE Council). In addition to acting as SBE Council's Entrepreneur-in-Residence, I am also the co-owner of Popped! Republic Gourmet Popcorn, a small business in Alexandria, Virginia.

SBE Council is a nonpartisan, nonprofit advocacy, research and education organization dedicated to protecting small business and promoting entrepreneurship. For nearly 25 years SBE Council has worked to advance a range of policy and private sector initiatives to strengthen the ecosystem for startups and small business growth. We have a nationwide network of more than 100,000 members and as one of those members, I welcome this opportunity to discuss the importance of tax reform to small business, at all phases in their business lifecycle, and the positive impact it can have on our economy.

In the September 25, 2017 CNBC/SurveyMonkey Small Business Survey of over 2,200 business owners, taxes topped the list of "critical issues," for small business, beating out health care, regulation, and customer demand. This issue is not solely a small business issue—nearly nine in 10 CEO chief executive respondents to the Business Roundtable's September 2017 economic outlook survey identified the tax code as the most important disadvantage to the U.S. economy relative to other major economies. The great unifier amongst businesses big and small is their ire for the U.S. tax code and the anxiety derived from three simple letters—the IRS.

The U.S. business community is in dire need of a tax code that encourages investment and growth, fosters new business creation, and alleviates the excessive compliance burden costing businesses both substantial time and money. Three ways to accomplish this—tax cuts, tax reform, and tax simplification.

Tax Simplification & Tax Reform

With over 2.4 million words, the tax code is so overwhelming that it is extremely difficult for small business taxpayers to reliably and accurately comply with the breadth of tax regulations. Most especially, the smallest businesses among us who cannot afford an accountant or CFO to consistently monitor the tax code and tax policy are the most disadvantaged.

According to a 2016 Tax Foundation study, Americans will spend more than 8.9 billion hours complying with IRS tax filing requirements in 2016. The majority those hours was spent complying with business tax regulations (2.8 billion hours) and individual income tax requirements (2.6 billion hours.) The price tag for this compliance burden was \$409 billion last year.

On top of the compliance burden, our tax code has not kept pace with our changing economy. Technology has been a game changer in the way we do business, evident by the explosion of ecommerce and the sharing economy. Policymakers need to consider changes to the tax code to bring it into the 21st Century.

The Small Business Owner's Tax Simplification Act (H.R. 3717), cosponsored by Chair Chabot and Ranking Member Velazquez on this committee is a necessary first step and would bring about much needed simplification and reform to our tax code.

Key provisions such as increasing the dollar threshold required for filing a 1099-MISC form from \$600 to \$1,500, aligning quarterly reporting deadlines, and allowing business owners to both offer and participate in Cafeteria Plans would mitigate compliance challenges as well as expand benefit offerings for small businesses.

Additional Recommendations

To further modernize the code, SBE Council recommends that the committee look at the current \$400 threshold on self-employment taxes, which has never been updated. If the self-employment tax floor had been adjusted at the same rate as the standard deduction on federal income, which is adjusted annually, it would be more than \$6,000. Updating this threshold would give new entrepreneurs a better chance for success and encourage more people to start businesses.

Similar to the expansion of Section 125 Cafeteria Plans laid out in H.R. 3717, we encourage the committee to also consider the expansion health reimbursement arrangements (HRAs) found in Section 105 of the Internal Revenue Code. HRAs are a flexible benefit option that allows small business owners to reimburse employees tax free for out-of-pocket medical costs, including health insurance premiums.

Key features of an HRA is that they do not require the business owner to purchase a group health plan nor require any contribution from employees out of their paycheck. Thus, business owners unable to provide health insurance as a benefit to their workers due to affordability and those with lower wage staff that cannot afford to set aside funds, can utilize an HRA to offer some financial assistance to their employees for their health costs. Unfortunately, like Cafeteria plans business owners cannot participate in their own HRA. SBE Council supports amending HRAs to allow business owner participation.

Tax Cuts

Providing tax cuts to small business and their corporate partners are also a vital component to kickstarting economic growth. SBE Council supports reducing both the tax rate of pass-through entities and the corporate tax rate.

Over 90% of businesses are—LLCs, partnerships, sole proprietorships or S corps—that pay their taxes based on their individual income tax rate. For these business, every dollar is typically reinvested back into their business to help with operations and growth.

Our business, Popped! Republic Gourmet Popcorn, is currently structured as an LLC. This structure dictates that we pay taxes based on our individual income tax rate and as owners we are not considered employees thus when we pay ourselves, we are then responsible for paying estimated taxes to the IRS. Additionally, as

our revenue grows we need to be mindful of our tax status to ensure we are not faced with a huge tax bill at the end of the year. Thus, tax cuts and tax reform are very important to us and our business, as well as something we are always thinking about as we make business decisions.

We hit our 5-year anniversary this May, at present have 11 employees and are currently in growth mode. We now operate a store in Alexandria, VA, a mobile food truck in D.C. and we just opened a kiosk location at the Fort Belvoir Military Base. We are working to add another retail location in northern Virginia which would create an additional six to eight jobs. We would like to fund this growth with the revenue from our existing business operations.

Tax cuts on pass through entities such as ours, would allow us to keep more of our money to fund this expansion and minimize our need to take on increased debt. Growth, job creation, and enhancing the local economy—the exact mantra we’ve heard from lawmakers year over year.

You may ask, why should a small business care about the corporate tax rate. Reducing and reforming the corporate income tax rate is not just a “big business” issue. According to the latest Census Bureau data, 86 percent of corporations have less than 20 employees, and 96.7 percent less than 100 workers. Many of these businesses are in high-growth sectors, and they—as well as their employees and our economy—would benefit tremendously from reducing the corporate rate. Additionally, small businesses such as our gourmet popcorn company, do significant business with corporations and large companies. Their health and competitiveness impacts our bottom line.

Reducing the tax rates for small and large businesses alike would provide a needed jolt to the economic ecosystem in our nation to spur growth and job creation.

Conclusion

A surprising “Gap Analysis” report on entrepreneurship release by SBE Council this year found that there is a massive shortfall of businesses—some 3.4 million “missing” businesses, compared to where we should be based on historical trends and key data related to incorporated and unincorporated self-employed, and employer firms as shares of the relevant population. A top priority of SBE Council is to promote policy that will enable greater levels of business ownership and support existing entrepreneurs.

We believe that a pro-growth tax code is vital to reinvigorate entrepreneurship and improve the competitiveness of the U.S. economy. Our nation needs a tax code that enables small business sustainability and growth—the combined approach of tax cuts, tax reform and tax simplification will get us there.

We appreciate this committee’s consistent support of small businesses and commitment to work together to find bipartisan solutions to the challenges business owners face on this issue and others.



Testimony
of Taylor Peake Wyatt
President
MotionMobs

On

"Small Business Tax Reform: Modernizing the Code for the Nation's Job Creators."

before the

U.S. House of Representatives Small Business Committee

October 4, 2017

2360 Rayburn House Office Building

Executive Summary

Chairman Chabot, Ranking Member Velázquez, and distinguished members of the Committee, thank you for the opportunity to testify on **H.R. 3717, the Small Business Owners' Tax Simplification Act**. My name is Taylor Peake Wyatt, and I founded MotionMobs seven years ago. We are a custom software consulting and development firm, specializing in mobile and web applications. As both an entrepreneur and a consultant for small businesses, including startups in the sharing economy, I can speak to many of the provisions in this bill and the impacts they could have for my own business and small companies across the nation.

In my experience, the tax code is overly complicated. Our team at MotionMobs has written software with payment processing components designed to calculate tax liability on purchases made across state lines. The component of these applications dedicated to determining sales tax liability by itself is overly complicated and illustrative of the need to simplify things.

Small businesses create about 64% of new private sector jobs. Yet the tax code is not user-friendly for small and medium-sized companies. Like most companies with fewer than ten employees, we don't have a department or even a person dedicated to tax filings. Making the process of paying taxes user-friendly is very important, and this legislation would be a good step in that direction.

The purposes of H.R. 3717 as I understand them are to modernize, clarify, and simplify tax provisions that apply to small businesses. These are laudable goals and I hope that broader tax reform includes measures like the ones in H.R. 3717 to achieve them.

A few provisions stand out, based on my experience. First, section 5 of the bill requires the Internal Revenue Service (IRS) to perform a test to determine that a bank account belongs to the proper taxpayer before depositing a return. Because tax fraud is rampant, the IRS depositing a refund in the wrong account is unfortunately common. Reclaiming the funds deposited in the wrong account takes a great deal of time and resources, which for a small business are especially scarce. In one instance a few years ago, I received a notice of deposit that was incorrect. Somehow, it was corrected on its own, but if it hadn't been, I know I would have had to dedicate significant time and resources to ensuring the right amount was deposited. This provision would help ensure that others can avoid draining resources to rectify incorrect deposits.

Second, we would welcome the proposed extension of cafeteria plan benefits to small business owners in section 6 is a welcome proposal. Too many small business owners are reluctant to take on cafeteria plans when anyone with enough of an ownership stake does not qualify. Within our company, approximately half of our team does not qualify. Availability of these plans would give small business owners another means of covering healthcare costs so that they can focus on their businesses.

Third, the provisions in the legislation clarifying that certain activities by sharing economy platforms do not have an effect on worker classifications are a good start. Workers and companies alike should clearly understand the impacts of their activities on classification. My

partners and I are starting a software-driven property management company and are faced with this exact issue. We are contemplating the appropriate mix of independent contractors and employees for our team, and clarity in the tax code in this regard would be very helpful. More can be done to clarify workers' status, however. For example, the bill could clarify that mandatory (but minimal) training covering aspects that are core to the functioning of the business—but outside the scope of the worker's vocation—also do not affect a worker's classification. Such a provision would be consistent with the purpose of the legislation to provide certainty. However, it should be drafted in a way that does not allow a company to impose employer-like obligations on an independent contractor such that he or she should ultimately be considered an employee.

Thank you again for the opportunity to testify, and I look forward to an important discussion on simplifying, clarifying, and modernizing the tax code for small businesses.

I. Simplification

Sec. 2. Adjusts quarterly reporting deadlines to match actual quarter ends. Over the years, business practices have evolved and modern businesses report their earnings on a different schedule than the one that exists in the tax code. This provision brings IRS tax reporting deadlines in line with current accounting practices. I believe it would be a common-sense reform to simplify the reporting process for small businesses.

Sec. 3. Aligns income tax thresholds in IRS forms for consistency. Form 1099-k and 1099-MISC are supposed to report similar types of income. However, since they were enacted at different times, the threshold income amounts they use aren't the same. The rounding amounts aren't the same either. This provision would bring them both in line, so that both have a threshold of \$1,500 to trigger the reporting requirement and providing that any reported amount that is not a multiple of \$100 shall be rounded to the nearest multiple of \$100. This is another rational provision that is easy to support, and I hope that it is included in broader tax reform.

II. Modernization

Sec. 4. Requires e-Signature updates. The Treasury Department has not issued guidance regarding acceptable e-signatures on tax returns. Yes, TurboTax provides an e-signature option. However, small businesses that file don't have assurance that the e-signature method they use is acceptable by Treasury standards. The provision requires the Treasury to issue guidance so that small businesses can be assured that the Treasury will accept the e-signatures they use on their tax returns. This is a reform that costs nothing and would provide a benefit at the margins in the form of certainty for small businesses.

Sec. 5. Requires pre-notification testing of recipient information before direct deposit of returns. Unfortunately, IRS refunds go to the wrong direct deposit far too often. Fraud is often to blame for these instances, but it could also be the result of honest mistakes. The problem can be avoided if the IRS notifies the entity that *should* receive the refund first to verify they are who they say they are—*before* the direct deposit is made. Clawing back a direct deposit made to the wrong entity is very cumbersome, especially for small businesses. Pre-notification testing is a simple and low-cost way of avoiding mistakes that are disproportionately costly for small businesses to rectify.

Sec. 6. Allows small business owners to participate in cafeteria accounts. Under current law, small business owners may offer cafeteria plans to their employees, such as dental plans, HSAs, and other accounts with tax advantages. However, these owners may not participate themselves. When a business owner cannot use a cafeteria plan, they often decline to offer them to any employees they bring on, often because additional employees in a small business have an ownership stake. Although this reform may impose a cost in the short run, I believe it would be an important update to the law for small business entrepreneurs who produce the bulk of job growth across the nation.

Sec. 7. Excludes net earnings less than amount required for Social Security coverage. Under current law, self-employment income is not counted as net earnings for tax purposes if it is under \$400. This provision would increase the \$400 amount to equal the amount required to qualify for “a quarter of coverage” for Social Security purposes (and 40 quarters are needed to qualify for Social Security). Currently, a person must earn \$1,300 to qualify for one quarter of credit for Social Security purposes, so this provision would increase from \$400 to \$1,300 the threshold amount for net earnings for it to be untaxed. The tax code abounds with benefits and exclusions for large corporations—this modest update for small businesses would be a welcome reform.

Sec. 8. Allows business owners to deduct healthcare expenses. This provision removes the exception for business owners from the broadly applicable healthcare expense deduction. Small businesses in Alabama often do not offer full coverage for their employees and families. Exorbitant healthcare costs are compounded when business owners must add taxes on those expenses to their balance sheets. We at MotionMobs are fortunate to be able to foot the bill for our employees’ and co-owners’ healthcare plans, but the expenses are painful to say the least. I have observed that other small businesses in Alabama are not so fortunate, and it seems that most are unable to cover full healthcare costs (including family coverage) for their employees. The tax on these expenses is money that could and should be spent elsewhere, and I strongly support this provision.

III. Clarification

Sec. 9. Allows a company to withhold certain amount from a payroll paycheck without impacting a worker’s classification. This provision would enable a sharing economy platform to provide withholding without accidentally becoming an “employer,” thus encouraging beneficial practices without sacrificing flexibility of a sharing platform. I am preparing to launch a software-driven property management company, and I have not decided yet whether to hire certain workers as employees or retain them as contractors. Knowing definitively whether withholding will have an impact on my workers’ status is important.

Sec. 10. Allows a company to provide voluntary training services without impacting a worker’s classification. The provision would enable a sharing economy platform to provide trainings without accidentally becoming an “employer,” thus encouraging beneficial practices without sacrificing flexibility of a sharing platform. Similar to Section 9, this provision would be helpful for me. As I determine whether a worker is an employee or a contractor, I need to be confident that this decision does not inadvertently come undone. I will likely provide training for my workers for the software platform we use, and knowing for sure that voluntary training programs do not impact employment status would help provide some stability. I should note,

however, that training my contractors and employees to use the software platform may be mandatory. Knowing how to use the platform, regardless of whether workers are independent or employees, will be crucial to the company's and the workers' success. It may be that the drafters of this legislation wish to avoid addressing mandatory training with respect to the core aspects of a worker's occupation. I tend to agree that mandatory training for maintenance activities could weigh in favor of a worker being an employee rather than a contractor. However, I suggest that the Committee consider adding a provision to the legislation clarifying that mandatory (but minimal) training covering aspects that are core to the functioning of the business—but outside the scope of the worker's vocation—also do not affect a worker's classification. Such a provision would be consistent with the purpose of the legislation to provide certainty. However, it should be drafted in a way that does not allow a company to impose employer-like obligations on a worker such that he or she should ultimately be considered an employee.

IV. Conclusion

For too many small business owners like myself, the tax code is out of date and difficult to access and navigate. Many of the provisions in this bill are common-sense updates. I believe the most important provisions are those that help defray healthcare tax liability; clarify workers' status; and simplify the process of paying taxes for small businesses. I strongly encourage this Committee to ensure that these provisions are adopted in any tax reform package that has a reasonable chance at becoming law and hope I can be a resource on these issues going forward.

\$hared Economy CPA

Honorable Congresswomen and Congressmen,

Let me begin by saying that it is an incredible privilege for me to sit before you here today. I am humbled and honored for this opportunity.

Most of all, I'm excited about the stories I am able to share with you. Entrepreneurial stories about people in the fastest growing part of the American economy: the Sharing Economy.

My goal is to provide insights gained as the largest tax and accounting practice solely focused on 1099 income earners. And to leave you all with a simple question about how to encourage the entrepreneurial spirit even more.

The sharing economy, as a global phenomena, I believe needs little introduction. Far smarter people than me that have documented its growth and prevalence. The most recent being the McKinsey Global Institute's report titled, *Independent work: Choice, necessity, and the gig economy* (October 2016), which reports that 3 out of 10 Americans at some level engage in "independent" work - a definition that spans the sharing or gig economy.

If only to gauge the magnitude of the industry (which is less than ten years old), look no further than the leaders in the sharing economy:

- Airbnb, the leader in home sharing, is valued at \$31 Billion per its latest round of funding.
- The leader in coworking space, WeWork, is estimated to be worth \$20 Billion.
- Uber and Lyft, combine for a \$50 to \$60 Billion valuation by conservative estimates.
- Upwork, the largest platform for freelancers, has three million jobs posted annually worth over \$1 billion.

For these five companies alone, we are looking at a \$100-Billion-plus economy that continues to hit year-over-year exponential growth.

What is most incredible about this movement should not be lost on valuations.

What is remarkable is that the companies that "own" the sharing economy survive and thrive because of the market participants, that is, the actual "sharers."

\$hared Economy CPA

And it is through their incentives, those of everyday working people hustling for that extra dollar, that these industry players - the Ubers, the Airbnbs, the Upworks of the world - are reaching massive valuations.

And that's the value of these companies. They've created marketplaces that people actively engage in. Marketplaces that suppliers and consumers, service providers and service demanders alike have adopted as a part of their lifestyle. For evidence of how disruptive losing this marketplace can be to everyday life, see Uber in London circa 2017.

If deadweight loss inhibits the exchange of goods and services between buyers and sellers due to market inefficiencies, then these sharing economy titans have been deadweight killers, enabling new market players and exchanges.

In our view, what is truly exciting is that these marketplaces have given rise to a new entrepreneur, the solopreneur. And in large numbers. By our estimates, of the 4 million listings on Airbnb worldwide, 2 million are in the United States. Lyft claims about 100,000 drivers in the U.S. market while Uber has 1.5 million drivers worldwide. The McKinsey study referenced earlier points to 162 million solopreneurs across the United States and Europe.

What has moved me in my time serving the solopreneur is both the diversity and passion of the clients who have come through our digital doors.

Whether it's the single mom in Cincinnati who lists her guest room so she can spend more time with her son instead of working a double shift, or the teacher in Urban LA who drives to chip in for extra school supplies, these are stories of heroes who found the purposeful hustle in the sharing economy.

Gone are the barriers to entry. Today people from different walks of life exchange time, services, share space and talent in a digitally-enhanced way that previously could only be imagined.

And what does this say about the business community we're creating?

Sharing space, assets, and talents is something we do only when we trust each other. And something we build only when we interact with each other. We build trust not just in the people, but in the institutions, and community in which they take place.

And for all the work and trust and community these entrepreneurs are building, it is my view that what they are offered in terms of tax benefits is extremely lacking. It frustrates me coming from a

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background where we had boxes worth of tax code for our corporate clients, but only a handful of tax planning options for the solopreneur.

I am in support of the bill to amend the tax code for small businesses. But I ask does it go far enough?

I cannot tell you how many times I've heard a sharing economy worker, in awe of their tax liability after working longer, smarter, and harder. To tell them that any return on post-tax dollars invested into their businesses is taxed again and hit with Self Employment taxes makes even less sense to me every time I explain it.

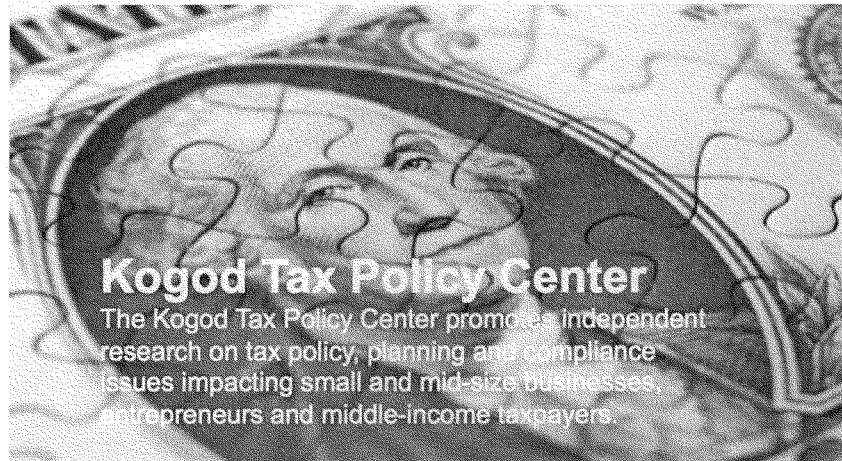
The arcane limits on deductions for sole proprietors are of no help. Incorporating a side hustle requires high costs and maintenance that for solopreneurs is contradictory. The very nature of their work is supposed to be low-cost and low-maintenance.

Moving forward, solopreneurs will need validation that income earned from their side hustles will not be burdened by policy makers. Solopreneurs need to be told that their entrepreneurial efforts are supported by the very leaders who are proponents of their work. They need to be told that Congress gets it. I will wait with them and hope that we can advance a tax policy that will make the environment for America's hustlers even greater.

Thank you,

Miguel Alexander Centeno

Partner
Shared Economy CPA



“Small Business Tax Reform: Modernizing the Code for the
Nation’s Job Creators”

U.S. House of Representatives
Committee on Small Business

October 4, 2017

Testimony of Professor Caroline Bruckner,
Executive-in-Residence, Accounting and Taxation
Managing Director, Kogod Tax Policy Center,
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Members of the Committee and staff, thank you for the invitation to testify today. My name is Caroline Bruckner and I am a tax professor on the faculty at American University's Kogod School of Business. I am also the Managing Director of American University's Kogod Tax Policy Center (KTPC), which conducts nonpartisan policy research on tax and compliance issues specific to small businesses and entrepreneurs. I am particularly appreciative of the opportunity to return to testify before this Committee to share my views on H.R. 3717, the *Small Business Owners' Tax Simplification Act of 2017*. H.R. 3717 is a bill that I worked with Committee staff to develop that includes essential tax code changes designed to address sharing economy tax compliance challenges I brought to this Committee's attention when I testified in May 2016, on the findings of my research included in *Shortchanged: The Tax Compliance Challenges of Small Business Operators Driving the On-Demand Platform Economy*. I am pleased to discuss provisions of H.R. 3717 that address existing tax compliance challenges identified in my research as well as provide insight on other areas the Committee should consider in moving forward with ideas for tax reform to help America's small businesses grow and access capital.

Part I – H.R. 3717: A Commonsense Approach to Tax Simplification for Small Businesses

Introduced as a bipartisan bill, H.R. 3717 proposes commonsense changes to better meet the needs of the growing number of sharing economy operators and self-employed small business owners. The changing nature of today's workforce and growing number of self-employed small business owners warrant these changes. As this Committee heard in testimony last year from the National Taxpayer Advocate, Nina Olson, "the self-employed have been growing faster than any other small business group over the past 10 years."¹ H.R. 3717 provides simplification and tax relief to small businesses navigating the uncertainty of the current tax code, particularly those taxpayers who are subject to the quarterly-estimated payment rules, the Form 1099 reporting rules, and self-employed small business owners paying for their own healthcare coverage.

Notably, H.R. 3717 reflects this Committee's ongoing commitment to address the tax challenges that plague the smallest of small business owners and that are a barrier to their growth. This bill is the result of more than a year-long effort, led by Kimberly Pinter, to develop small business tax relief legislation by soliciting feedback and policy ideas in countless phone calls, meetings, and exchanges with IRS and Treasury officials, small business tax policy experts, multiple Congressional committees including Ways and Means, Senate Finance and JCT, as well as stakeholders and small business owners from across the political spectrum. In addition, this Committee has held multiple full and subcommittee hearings to develop testimony from experts and small business owners with respect to the policy changes contemplated in this bill. As a result, H.R. 3717 represents commonsense tax simplification changes that will help millions of small business owners across the country.

In particular, three provisions of the bill stand-out as good examples of the bill's approach: the changing of the due dates for quarterly-estimated payments; the proposed alignment of the Form 1099-K and 1099-MISC filing income thresholds; and the reinstatement of the deduction for health insurance costs for the self-employed.

I. Quarterly-Estimated Payments

Last year I reported to this Committee that in our survey of experienced, self-employed business owners operating in the sharing economy, more than one-third of respondents did not know whether they were required to file quarterly-estimated payments on the income they earned working with a platform.² Two days later, the National Taxpayer Advocate testified before this Committee and recommended that anything that can be done “to help taxpayers make their estimated tax payments more easily and lessen the burden of saving to make such payments is likely to increase compliance.” H.R. 3717 does just that. By updating the filing deadlines for second and third quarter installment payments set forth in IRC Section 6654(c) to be due two weeks after a quarter's end, rather than in the middle of a quarter as is required under current law, H.R. 3717 modernizes the existing filing deadlines to reflect business reality of the second and third quarters' end. As a result, this change is likely to increase compliance because under current law “taxpayers must remember oddly spaced payment dates...[that] do not consistently coincide with calendar quarters, making difficult to calculate net income and confusing to tax payers.”³ By simply changing existing due dates to fall after a quarter's end, H.R. 3717 can ease the burdensome process of estimating income for purposes of remitting quarterly-estimated payments because taxpayers will know how much they earned the preceding quarter rather than requiring taxpayers to make their best guess.

II. Alignment of 1099 Filing Thresholds

In addition, H.R. 3717 proposes long-overdue updates to the Form 1099 filing thresholds that are needed to keep pace with growth trends in our economy. In May 2016, I testified that expert economists have found that the explosive growth of the on-demand platform economy is the latest example of a 66.5% increase in alternative work arrangements for U.S. workers that increased from 14.2 million in 2005 to 23.6 million in 2015.⁴ Moreover, with respect to the sharing economy, my research found that more than 60% of the sharing economy operators I surveyed did not receive any Form 1099 on their platform income and that almost 70% received no tax guidance from the sharing economy platform they worked with. Our research suggested that persistent tax compliance challenges attributable, in part, to an antiquated information reporting regime would only continue to grow along with alternative contingent work arrangements and the sharing economy. The most recent IRS taxpayer data released this year confirmed the ultimate impact of our research findings: for 2015, the number of filers penalized for underpaying estimated taxes rose nearly 40% between 2010 and 2015—to 10 million from 7.2 million.⁵

However, in response to the release of Shortchanged, significant work has been done by both the IRS and industry to help sharing economy operators navigate the complexity of the tax code. For example, in August 2016, the IRS launched the Sharing Economy Tax Center on IRS.gov “to help taxpayers involved in the sharing economy quickly locate the resources they need to help them meet their tax obligations.”⁶ In addition, some industry platforms began issuing Form 1099-Ks to sharing economy operators even though it was not required under current law to help operators meet their tax filing obligations.⁷

H.R. 3717 takes the next step by proposing the commonsense alignment of the filing thresholds for information reporting to the IRS and taxpayers for Forms 1099-MISC and 1099-K. Under current law, a Form 1099-MISC is required on amounts paid by nonemployers to service providers and sellers generally on amounts of \$600, however, if a payment is made via a credit card or debit card, a Form 1099-K is required.⁸ In cases where a Form 1099-K is required, a taxpayer must have more than 200 transactions *and* payments exceeding \$20,000 before the Form 1099-K reporting rules are triggered. As a result of the 200 transaction/\$20,000 income thresholds for Form 1099-K filings, the majority of small business operators earning income working with sharing economy platforms are not guaranteed to receive a Form 1099-K because, on average, they earn substantially less than \$20,000 per year.⁹ Our survey and research confirmed this state of play.

By lowering the filing threshold for Form 1099-K to \$1,500, H.R. 3717 actively works to ensure at the very least taxpayers have the forms they need to file their taxes and claim any deductions or credits they may be entitled to in order to lower their tax liability. At the same time, H.R. 3717 modernizes the Form 1099-MISC threshold by raising it from \$600 to \$1,500 to provide some relief for small businesses who are subject to the Form 1099-MISC filing rules. Keep in mind, the Form 1099-MISC filing thresholds have not been fundamentally reviewed or updated since at least 1954.¹⁰ Adjusted for inflation, \$600 in 1954 would be more than \$5,000 in today's dollars. By creating a uniform reporting standard for filing for Form 1099-MISC and Form 1099-K, H.R. 3717 is likely to enhance compliance by both taxpayers and reporting entities because more taxpayers will receive Form 1099s, which is abundantly supported by the existing research on tax compliance challenges of sharing economy operators and will likely benefit other self-employed small business owners operating outside the sharing economy, but who primarily are paid via credit card transactions. In short, H.R. 3717 simplifies and modernizes the information reporting regime in a fundamental way that is likely to reduce the confusion and unnecessary complexity of we identified in our report, and also will likely increase compliance by small business operators many of whom are in the sharing economy, and more than 23 million of whom are now in alternative contingent work arrangements.

III. *Tax Equity for the Self-Employed*

Finally, H.R. 3717, among other changes to help small businesses with their health insurance costs, proposes the reinstatement of the deduction for health care costs for the self-employed that was temporarily available as part of the 2010 Small Business Jobs Act.¹¹ This Committee has taken countless hours of testimony from small business owners across the country who struggle with paying for healthcare insurance. The self-employed small business owner is particularly challenged as they are unable, under current law, to deduct the full extent of their healthcare costs. For 2010 only, self-employed small business owners were allowed to deduct their healthcare costs for purposes of calculating self-employment taxes. As my fellow panelist Kristie Arslan testified before the U.S. Senate Committee on Small Business and Entrepreneurship (Senate SBC) in 2011 at a hearing I organized as the General Counsel of the Senate SBC, this deduction had a real impact on lowering taxes for the self-employed:

“What did this deduction mean to someone who is self-employed? Health insurance and taxes are the two highest costs for small business. Annual premiums in the individual market averaged \$2,985 for single coverage and \$6,328 for family plans nationwide in mid-2009, according to a report released by America’s Health Insurance Plans (AHIP). Based on these costs, the one-year tax deduction in the Small Business Jobs Act of 2010 saved self-employed business owners approximately \$456.71 to \$968.14 in taxes. Depending on the cost of their health coverage, some businesses likely saved even more.”¹²

The reinstatement of this deduction is an example of tax simplification that can, and will, actually lower tax bills for America’s self-employed small business owners, who we know struggle with rising health care costs. This provision has long enjoyed support of both parties and has been championed by the current Chair of the Senate Finance Committee.¹³

Part II – Congress Need to Do More to Address Tax Challenges of Small Businesses Struggling to Grow and Access Capital

H.R. 3717 is a commonsense approach to addressing tax challenges faced by America’s small businesses. But I urge the Committee to do more. As Congress moves forward with tax reform, this Committee will continue to play a vital role in informing members and the tax-writing committees on tax and compliance challenges facing small businesses under the current system, however, with respect to women-owned firms, there is significantly more work to be done.

Specifically, our latest research, *Billion Dollar Blind Spot – How the U.S. Tax Code’s Small Business Tax Expenditures Impact Women Business Owners*, which we released in June, identifies a number of barriers to small business growth that impact women-owned firms, the overwhelming majority of which are small businesses. Moreover, our

report assesses how the U.S. tax code's more than \$255 billion of tax expenditures targeted to help small businesses grow and access capital impact women-owned firms and makes the following findings.

- While women-owned firms have increased to now total more than 11 million (or 38% of all U.S. firms), the majority of women business owners are small businesses operating in service industries and they continue to have challenges growing their receipts and accessing capital.
- At the same time, three of the four small business tax expenditures we assessed are so limited in design that they either (i) explicitly exclude service firms, and by extension, the majority of women-owned firms; or (ii) could effectively bypass women-owned firms who are not incorporated or who are service firms with few capital-intensive equipment investments altogether.
- Our survey data of 515 experienced, engaged women business owners corroborates these findings, and nevertheless suggests that when women-owned firms can take advantage of tax breaks, they do. However, neither Congress nor Treasury or IRS or SBA has ever measured how the tax code impacts women business owners.
- For example, we identified only three women business owners who had ever used Internal Revenue Code Section 1202 - a \$6 billion tax break - to raise capital for their firms. While we expect that more than three women-owned firms have used this provision since 1993, we don't have publicly-available taxpayer data to prove it. This example highlights why we need tax research on women business owners. Similarly, our survey found that women business owners use Section 179 at significantly lower rates than existing government research finds for businesses generally. This tax break is one of the most expensive (i.e., it will cost \$248 billion from 2016-2020), and yet we don't have any research on how it benefits women business owners.
- Our findings raise questions as to (i) whether the U.S. tax code's small business tax expenditures are operating as Congress intended for these small businesses; and (ii) whether the cost of these expenditures has been accounted for in terms of their uptake by women-owned firms.

In answering these questions impacting millions of women business owners, we found that Congress and stakeholders have a billion dollar blind spot when it comes to understanding how effective small business tax expenditures are with respect to women-owned firms. This blind spot indicates Congress does not have data or research to make evidence-based tax policy decisions with respect to these small businesses. Ultimately, we recommend the following strategies for this Committee to employ to develop necessary research on these issues including:

1. Requesting the Congressional tax-writing committees hold joint hearings together with this Committee on the small business tax issues identified in *Blind Spot*,

2. Requesting the Joint Committee on Taxation develop estimates on how small business expenditures impact women-owned firms; and
3. Requesting the federal Commission on Evidence-Based Policymaking develop strategies for developing the data we need to measure these expenditures in terms of women-business owners.

Congress, and specifically this Committee, has demonstrated time and again its commitment to alleviating the tax burdens faced by small businesses. So much so, that under current law, taxpayers will forego more than \$255 billion from 2016 to 2020 just on the four small business tax expenditures assessed in our latest research. And yet there has been no formal accounting as to whether and how these expenditures impact or are distributed to or among women-owned firms—99% of which are small businesses, according to SBA's Office of Advocacy's latest report on women-owned firms. As a result, Congress doesn't know whether the money it has spent trying to help smaller firms access capital and grow has been well spent with respect to women-owned firms. The absence of research on these issues is contrary to recent Congressional efforts to engage in evidenced-based policy making going forward and means Congress does not have adequate data to understand the barriers to growth impacting more than 11 million small businesses. This Committee can and should immediately work to develop the needed research to understand the tax barriers facing these small businesses.

Finally, I urge the Committee to continue to consider what more can be done to expedite help for the millions of small business owners in Texas, Florida, Puerto Rico and the Virgin Islands impacted by the devastating 2017 hurricane season. As a native Houstonian, I went home just last week to be with friends and family, survey the damage, and volunteer with recovery efforts. As someone who started working on disaster recovery issues on behalf of the state of Louisiana four years after Hurricane Katrina made landfall, I know from experience that it will be the small businesses in impacted communities that will lead the recovery and that it will take years for many of these communities to recover. To date, I have heard from people in DC and in Houston that SBA and FEMA are doing good work, however, there is more work to be done and I strongly urge the Committee to prioritize any necessary SBA disaster recovery legislation. Again, I thank you for the opportunity to join today's discussion and for the work you do on behalf of America's small businesses.

¹ *The Sharing Economy: A Tax Experience for New Entrepreneurs Part II: Hearing Before the House Comm. on Small Business, 113th Congress (2016)*(statement of Nina Olson, IRS National Taxpayer Advocate) available at https://smallbusiness.house.gov/uploadedfiles/national_taxpayer_advocate_testimony-5-26-2016_hearing.pdf.

² *The Sharing Economy: A Tax Experience for New Entrepreneurs Part I: Hearing Before the House Comm. on Small Business, 113th Congress (2016)*(statement of Caroline Bruckner, Managing Director, Kogod Tax Policy Center) available at https://smallbusiness.house.gov/uploadedfiles/5-24-16_bruckner_testimony_.pdf.

³ Olson, *supra* n. 1.

⁴ Lawrence F. Katz & Alan B. Krueger, *The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015*, (Mar. 29, 2016), http://scholar.harvard.edu/files/lkatz/files/katz_krueger_cws_v3.pdf?m=1459369766.

⁵ Laura Saunders, "Number of Americans Caught Underpaying Their Taxes Surges 40%," *Wall Street Journal*, (Aug. 11, 2017) available at <https://www.wsj.com/articles/the-number-of-americans-caught-underpaying-some-taxes-surges-40-1502443801>.

⁶ Press Release, IRS, IRS Launches New Resource Center on IRS.gov, Provides Tips for Emerging Business Area (Aug. 22, 2016) available at <https://www.irs.gov/businesses/small-businesses-self-employed/sharing-economy-tax-center>.

⁷ TurboTax – Taxes Income Tax, HOW TO USE YOUR LYFT 1099: TAX HELP FOR LYFT DRIVERS INTUIT TURBOTAX (2016), <https://turbotax.intuit.com/tax-tools/tax-tips/Self-Employment-Taxes/How-to-Use-Your-Lyft-1099--Tax-Help-for-Lyft-Drivers/INF31027.html> (last visited Oct 1, 2017).

⁸ See Caroline Bruckner, *Shortchanged: The Tax Compliance Challenges of Small Business Operators Driving the On-Demand Platform Economy*, American University Kogod Tax Policy Center (May 2016) (summarizing the information reporting rules for sharing economy operators).

⁹ *Id.* According to the most comprehensive research available on the earnings of on-demand platform economy operators, the average monthly income of an on-demand platform small business ranges from \$533 to \$314 (roughly \$6,396 to \$3,700 annually). See Diana Farrell & Fiona Greig, *Paychecks, Paydays, and the On-demand Platform Economy: Big Data on Income Volatility*, JP Morgan Chase & Institute, 1-43 (2016), <https://www.jpmorganchase.com/corporate/institute/document/jpmc-institute-volatility-2-report.pdf>.

¹⁰ See P.L. 83-591, which was enacted on Aug. 16, 1954 and which created IRC Section 6041 with the original \$600 threshold.

¹¹ P.L. 111-240.

¹² Small Business Recovery: Progress Report on Small Business Jobs Act of 2010 Implementation, 112 Congress (2011) (statement of Kristie L. Arslan, Executive Director, National Association for the Self-Employed) available at https://www.nase.org/sf-docs/default-source/advocacy-documents/NASE_Testimony_-_SBC_-_Small_Business_Jobs_Act_Implementation- Kristie_Arslan_05-19-11.pdf?sfvrsn=0

¹³ S. 3348, 102nd Cong. § 101 (1992).

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October 3, 2017

The Honorable Steve Chabot
Chairman
House Committee on Small Business
2371 Rayburn House Office Building
Washington, DC 20515

The Honorable Nydia Velazquez
Ranking Member
House Committee on Small Business
2302 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Chabot and Ranking Member Velazquez,

I am writing to you on behalf of the more than 161,000 dentists who are members of the American Dental Association (ADA). As the Committee takes the lead in the policy discussions regarding comprehensive tax reform proposals, the ADA wanted to highlight the business tax reform priorities of our members. The ADA applauds your efforts to improve our current tax system to make it simpler, fairer, and more growth-oriented. The Association looks forward to working with you in the coming months to achieve comprehensive reform of our nation's tax code.

Many dental offices are small businesses. Some are organized as pass-through entities or S Corporations, others as C Corporations. For this reason, our interests straddle both the business and individual portions of the tax code. Below is a brief overview of the tax-related matters that are of highest importance to dentists and our patients.

1. **Cash Accounting:** ADA supports the continued use of the cash method of accounting for small businesses, including pass-through entities and professional service corporations. The cash method of accounting is a simpler, fairer system for dentists who often must wait a significant period of time before being reimbursed by insurance companies for the services they provide. In addition, dentists, particularly orthodontists, frequently provide patients with extended payment plans for services, which delays payment for work performed.
2. **Pass-through Entities:** ADA supports the fair treatment of business income generated by pass-through entities. As previously stated, many dental practices are organized as pass-through entities. As Congress looks to reduce the tax rate on C corporations, ADA encourages you also to consider a rate reduction for S corporations or pass-through entities that are taxed at the individual rate.
3. **Higher Education Incentives:** Dentists just starting a practice today are saddled with an average of \$261,149 of student loan debt. This debt impacts their practice decisions, including whether to work in research, dental education, or in underserved areas. It also affects their ability to provide charitable care or pursue post-doctoral education. ADA encourages lawmakers to consider measures that would help relieve this significant debt load when considering options for streamlining the current patchwork of higher education tax incentives.

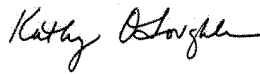
4. **Use of Pre-Tax Dollars for Health Care:** ADA supports expansion and increased flexibility of health savings accounts (HSAs) and flexible spending accounts (FSAs), as well as preservation of the current tax exclusions for employer-provided medical and dental plans. Specifically, the Association supports returning the FSA limits to the pre-ACA level of \$5,000 and continuation of the index to inflation provision. Currently, FSA reimbursement is limited to \$2,550 for 2017. The ADA believes the reduced amount is a step back for consumers when the cost of health care continues to increase and adversely impacts the patient's choices for dental care.

Thank you again for your efforts regarding business tax reform and for the opportunity to provide you with specific tax reform priorities that would assist dentists and dental patients. Please do not hesitate to contact Megan Mortimer, Congressional Lobbyist for the ADA, at 202-898-2402 if you or your staff have any questions or would like additional information.

Sincerely,



Gary Roberts, D.D.S.
President



Kathleen T. O'Loughlin, D.M.D., M.P.H.
Executive Director

GR:KO:mm



185 Berry Street
Suite 5000
San Francisco, CA 94107

October 10, 2017

U.S. House of Representatives Small Business Committee
Chairman, Representative Chabot
Ranking Member, Representative Velazquez

U.S. House of Representatives Ways and Means Committee
Chairman, Representative Brady
Ranking Member, Representative Neal

Lyft is the first company to establish peer-to-peer, on demand ridesharing, and is currently the fastest growing rideshare company in the United States. Today, Lyft connects over 30 million people each month with efficient, affordable, and safe rides in over 95% of the United States.

Lyft applauds the House Small Business Committee's thoughtful examination of the tax code, and how it can benefit entrepreneurs in the new economy. The Small Business Owners' Tax Simplification Act of 2017 will help to streamline and modernize current tax laws and requirements for the 42.6 million Americans participating in the independent contractor workforce.

This bipartisan bill would help to provide greater certainty to independent contractors and entrepreneurs; specifically, the bill:

- Aligns quarterly reporting dates
- Modifies 1099 threshold filing requirements
- Updates thresholds for exemption when annually filing self-employment income
- Modernizes the filing process through accepting electronic signatures
- Allows businesses to withhold taxes without jeopardizing worker classification status; significantly increasing compliance and reducing complexity
- Allows business to provide training and tax advice

As Congress addresses tax reform, Lyft is thrilled to see this common sense, bipartisan approach to clarifying the tax code. This is an important step in modernizing our laws to interact with the workforce of today.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Okpaku", written over a horizontal line.

Joseph Okpaku
Vice President of Public Policy
Lyft

Paula Calimafde
 President and General Counsel
 4800 Hampden Lane
 6th Floor
 Bethesda, MD 20814



**Small Business Council of America Statement for the Record
 U.S. House of Representatives Committee on Small Business
 Hearing - "Small Business Tax Reform:
 Modernizing the Code for the Nation's Job Creators"**

October 4, 2017

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 October 4, 2017 hearing on "Small Business Tax Reform: Modernizing the Code for the Nation's Job Creators."

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 20,000 enterprises in retail, manufacturing and service industries, virtually all of which provide health insurance and retirement plans.

The SBCA strongly supports the Small Business Owners' Tax Simplification Act of 2017 (H.R. 3717) and its goal of making the tax code fairer and easier for small businesses and is encouraged to see the bi-partisan support behind these issues. In particular, for the reasons set forth below, the SBCA urges Congress to pass Section 6 of H.R. 3717 to allow small business owners to be eligible to participate in cafeteria plans.

Cafeteria plans (also known as IRC Section 125 plans) allow participants to pay for certain types of limited-scope health coverage, dependent care costs (IRC Section 129) and out-of-pocket medical expenses (IRC Section 105) on a pre-tax basis. Cafeteria plans allow employees to obtain and pay for, on a pre-tax basis, employee benefits, such as deductibles, co-pays, prescription drugs, braces, eyeglasses and other health care expenses, as well as dependent care, adoption expenses, and group term life insurance. These important tax savings currently allow many Americans greater access to health services and allow them to select the benefits they need the most.

The SIMPLE Cafeteria Plan provides an incentive for small business owners to sponsor cafeteria plans, thereby making it easier for the employees of these businesses to obtain greater health coverage and other valuable employee benefits that are generally available to their counterparts working for larger businesses.

While employees of large businesses, mid-size employers, non-profits, schools, universities and the federal government can take advantage of the valuable benefits provided by cafeteria plans, ONLY SMALL BUSINESS OWNERS are NOT ALLOWED



to participate in a cafeteria plan. Under current law, cafeteria plans can be utilized by common-law employees, but not by sole proprietors, partners in a partnership, S-corporation shareholders holding an interest of 2% or greater (and by attribution, their family members) and members in a limited liability company which has elected to be taxed as a partnership. **As a result, because most small business owners are not able to participate in cafeteria plans, employees of small businesses are often not offered this valuable benefit.**

This is plain and simple discrimination against small business owners. This rule is also bizarre in that small business owners are, of course, allowed to participate in qualified retirement plans. It should be noted that there are many more employees of small businesses in qualified retirement plans than in cafeteria plans, proof that by disallowing the majority of small business owners from participating in a cafeteria plan, their rank-and-file employees are at a significant disadvantage.

Because IRC Section 125 does not specifically include self-employed individuals in its definition of "employee", the Internal Revenue Service (IRS) decided that Congress had intended to prohibit small business owners as "employees" for purposes of IRC Section 125. We contend that Congress did not intend any such result since, at the time Section 125 was enacted, small business owners, regardless of whether they were working in a pass-through entity or not, were deemed employees for purposes of qualified retirement plans. There is no good reason to think they should be treated otherwise for a similar type of employee benefit – the cafeteria plan, particularly given that everybody else can be covered by a cafeteria plan. As a result of IRS' interpretation of Section 125, sole proprietors, partners, shareholders owning 2% or more in S-corporations, and members of most limited liability companies are all unable to participate in cafeteria plans. This creates a significant disincentive for small business owners to provide cafeteria plans for their employees.

The SBCA also thinks it would be desirable to allow cafeteria plans to be able to provide employees with the option of purchasing long-term care insurance as a qualified benefit. If allowed to purchase long-term care insurance on a pre-tax basis and by payroll deduction, it is far more likely that employees will elect to be covered by long-term care. Encouraging citizens to finance their own long-term care is desirable as it will help to shift the burden away from the government in addressing the long-term care needs of older citizens. The entire country wins when Congress can incentivize individuals to purchase long-term care insurance on their own.

Example of SIMPLE Cafeteria Plan

Innovative Co., an LLC taxed as a partnership, has 5 owners and 15 employees. It has been in business for four years and wants to provide its employees with some benefits. It has some younger employees with young children and some older employees, some of whom have infirm parents. Some of its employees have come from the federal government or larger companies and have asked for the types of benefits previously available to them. Innovative Co. decides to consult with its employee benefits advisor to determine the best way to tailor a benefits program for its employees.



Under the Current Law:

Innovative Co. would offer some form of health insurance wherein the employees would have to pay for their portion of the premium on an after-tax basis, if the company does not provide a premium only plan. The company might offer a group term insurance benefit; all of the employees would be covered whether or not they needed insurance. If Innovative Co. were to inquire about offering a cafeteria (a.k.a. Section 125 plan) similar to that offered by the federal government or larger companies, the advisor would inform them that none of the owners could be covered, so in all likelihood the company would not be interested in the plan. It is possible that they might provide a premium-only plan for the non-owners, which would at least allow the non-owners to pay their portion of the health insurance premium on a tax-free basis. It would be highly unlikely that the employees would be covered under a more comprehensive cafeteria plan offering vision and dental benefits, flexible health care spending accounts, dependent care flexible spending accounts, additional life insurance and so on, because the owners would not be willing to incur the administrative burdens and costs of sponsoring such a plan when *they are not allowed to participate*.

If Small Business Owners Were Eligible for a Cafeteria Plan:

Innovative Co. would offer a SIMPLE cafeteria plan. Employees could pay for certain health-related expenses on a pre-tax basis. Employees with young children could opt for the dependent care coverage if they chose to do so by having their payroll reduced to pay these expenses on a pre-tax basis. This benefit is also available to older employees who have infirm parents or other dependents in need of care. Employees could choose to reduce their paycheck and put that money into a flexible health care spending account where it could be used to pay for medical expenses not covered by insurance, such as eyeglasses or braces. Alternatively, employees could opt for dental or vision insurance. The company could also allow the employees to select from other supplemental insurance plans, such as those offered by Aflac. They could also choose to increase the amount of life insurance available to them if the plan so provided. And, if Congress allowed long-term care insurance to become a qualified benefit, an employee could select long-term care insurance if needed. Each employee would be able to tailor his/her own benefits package to suit his/her own needs. The result is that the employees would have a more active role in selecting their benefits and, by joining Innovative Co., would not be robbed of the opportunity to enjoy valuable benefits routinely available with larger companies and the federal government.

The SBCA applauds the Committee's work in support of H.R. 3717 and urges Congress to pass this legislation to allow small business owners of pass-through entities to be deemed "employees" for Section 125 and permitted to participate in the cafeteria plans that they sponsor.

AUMUA AMATA COLEMAN RADEWAGEN
AMERICAN SAMOA

COMMITTEE ON SMALL BUSINESS

CHAIRMAN
SUBCOMMITTEE ON
HEALTH AND TECHNOLOGY
SUBCOMMITTEE ON
AGRICULTURE, ENERGY AND TRADE



Congress of the United States
House of Representatives
Washington, DC 20515-5200

COMMITTEE ON NATURAL RESOURCES

SUBCOMMITTEE ON
INDIAN, INSULAR, AND ALASKA NATIVE AFFAIRS
SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATION

COMMITTEE ON VETERANS' AFFAIRS

SUBCOMMITTEE ON HEALTH
SUBCOMMITTEE ON
DISABILITY ASSISTANCE AND MEMORIAL AFFAIRS

4 October 2017

Rep. Steve Chabot
Chairman
House Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515

Rep. Nydia Velázquez
Ranking Member
House Committee on Small Business
2069 Rayburn House Office Building
Washington, DC 20515

Talofa, Good Morning. I want to thank the Chairman and Ranking Member for holding this important meeting on tax reform.

Over 95% of businesses located in my home of American Samoa are small businesses. On top of all the other issues that small business in American Samoa faces; is that the IRS treats businesses incorporated in the territories as foreign companies -- which creates a perverse incentive that discourages territorial small businesses from expanding to the mainland.

All five territories are facing severe crises -- from natural disasters to economic collapse. Growth of small businesses can ensure sustainability and reduce the volatility of the territories.

My hope is that we can work together to promote small business growth in the territories -- and encourage a change to the tax code that would incentivize and not deter small business growth in American Samoa, CNMI, Guam, Puerto Rico, and the USVI.

Aumua Amata

Aumua Amata Coleman Radewagen
Member of Congress

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UZURV HOLDINGS, INC.

2816 W. Broad St. Suite B.
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October 2, 2017

Chairman Steve Chabot
House Committee on Small Business
U.S. House of Representatives

Re: Support for HR 3717


Dear Chairman Chabot,

UZURV is a Reservation Network Company (RNC) based in Richmond, Virginia. We pride ourselves on creating a better experience for both riders and drivers. One major aspect of our business is providing mobility solutions for paratransit customers through partnerships with public transportation agencies such as the Greater Richmond Transit Company (GRTC).

Through this program, customers requiring transportation and/or special assistance during their travel are accommodated to ADA guidelines. UZURV provides origin-to-destination service, including curb-to-curb and door-to-door. Drivers registered with UZURV meet GRTC's training and customer service expectations.

UZURV firmly supports HR 3717, the *Small Business Owners Tax Simplification Act of 2017*. We provide voluntary training to help ensure that our customers and their particular needs are met. Without the proposed legislation, there is a risk that businesses like our will be burdened with employer liability because we try to go above and beyond by providing voluntary training, such as our ADA Certification Training.

Sincerely,



John Bonlon
CEO
Phone: 412-979-3904
Email: john@uzurv.com
www.uzurv.com