



**WRITTEN STATEMENT FOR THE RECORD
BEFORE THE U.S. HOUSE COMMITTEE ON SMALL BUSINESS**

Hearing on “Paying their Fair Share”

April 18, 2023

**John Arensmeyer
Founder & CEO, Small Business Majority**

Dear Chairman Williams, Ranking Member Velázquez and members of the House Committee on Small Business:

My name is John Arensmeyer. I am the founder and CEO of Small Business Majority, a national small business organization that empowers America's diverse entrepreneurs to build a thriving and equitable economy.¹ Prior to launching Small Business Majority 17 years ago, I was the founder and CEO of an award-winning international interactive communications company which I ran for 12 years. Earlier, I was the Chief Operating Officer of a pioneering multimedia business.

At Small Business Majority we engage our network of more than 85,000 small businesses and 1,500 business and community organizations to advocate for public policy solutions and deliver resources to entrepreneurs that promote equitable small business growth. As a leading representative of America's 32 million small businesses, Small Business Majority is pleased to submit written testimony on the importance of a fair and equitable system of taxation that promotes inclusive entrepreneurship as the foundation of our economy.

The need for a level playing field

America's small business owners want a level playing field on which to do business. An essential component of this is a tax system where individuals and corporations pay their fair share.

For more than a decade we have examined the reality of how taxation affects America's Main Street businesses and effectively advocated for policies that support a fair, resilient, inclusive economy. Our work has combined analyses of tax policies' impacts on Main Street along with scientific research into small business attitudes. This data is bolstered by the stories of real small business owners.

Our scientific research over the years supports a very different picture of small business attitudes toward tax policy than what is typically put forth by other organizations purporting to speak for small businesses.

- A [poll](#) of small business owners across the country found that 73% believe the current tax system favors big businesses over small businesses and 64% believe that wealthy individuals currently do not pay their fair share of taxes.
- Another [poll](#) found that 67% of small businesses support raising the top marginal rate to fund important programs.
- Moreover, [62% support](#) increasing the tax enforcement budget at the IRS.
- These same attitudes have been expressed over many years of prior research, including our [October 2017 poll](#) fielded during the Tax Cuts and Jobs Act (TCJA) debate and our [November 2012 poll](#) taken during the 2012 “fiscal cliff” debate.

¹ <https://smallbusinessmajority.org>

The actual impact of tax policies on small business

All too often the tax debate misrepresents the actual impact of tax policies on entrepreneurship. While it is true that 95% of small businesses pass their profits and losses to their owners (a fact that is repeated *ad nauseum* by those advocating tax cuts for the wealthy), this statistic on its own is irrelevant. Based upon 2021 [Tax Policy Center data](#):

- Only 2% of businesses have pass-through business income taxed in the top bracket and just over 4% in the top two brackets. As such, almost all small businesses in the U.S. (96%) are not affected by any proposed changes in the upper-end tax rates.
- 69% of all pass-through income is earned by the 4% of business owners in these two rarified tax brackets. This disparate economic impact is even more pronounced when you factor in the marginal tax rates themselves. So, most of the benefit of the Section 199A 20% pass-through deduction in the TCJA flows to the wealthiest 4% of businesses, not to Main Street enterprises.
- These inequitable tax policies adversely impact the smallest businesses in our most under-resourced communities. In particular, businesses owned by people of color and women, as well as those in rural areas, have struggled to recover from the pandemic and continue to face hardship accessing capital and other resources. Tax policies skewed toward the very wealthy do not help them thrive.

Policy solutions

We are currently having a debate about a responsible budget that ensures the funding of critical programs, including those directly benefiting small businesses. This requires tax policies that support true entrepreneurship with an equitable sharing of the burden. As such, we recommend the following:

- Enact the Biden administration's proposal to expand revenues to support critical programs and reduce the deficit by increasing the top marginal tax rate on the very wealthy. Only [2%](#) of businesses with pass-through income pay at the top marginal rate and [two-thirds](#) of small businesses support raising the top rate to fund important programs.
- Do not extend the Section 199A tax deductions established by the 2017 TCJA tax law that allow businesses to deduct 20% of pass-through business income. [Almost 70%](#) of the total 199A benefit flows to approximately 4% of pass-through businesses.
- If Congress is truly interested in providing tax benefits to the nation's smallest, most under-resourced businesses, there are myriad other ways to provide bottom-up solutions. Instead of the current law that provides most of the benefit to an elite few, Congress could instead allow the recipients of pass-through income to deduct the first \$15,000, phasing out the benefit for business owners making between \$100,000 and \$150,000. This is just one idea, and the numbers could be adjusted. But this demonstrates a way to provide a benefit to the smallest businesses that need the help the most, rather than favoring the very wealthy with limited benefits trickling down to the rest of businesses.
- Maintain full funding of the Internal Revenue Service (IRS) to ensure that small businesses have access to information and services from the now-understaffed IRS and to improve revenue collection from large corporations and the very wealthy. [Almost two-thirds](#) of small business owners support expanded IRS funding.

Conclusion

America's small business owners want a level playing field on which to do business. An essential component of this is a tax system where individuals and corporations pay their fair share. We need solutions that recognize where the biggest benefits flow in our current system and make changes that result in a fairer, more equitable economy.