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Statement to the United States Senate Committee on Small Business and Entrepreneurship in connection with the hearing on April 8, titled, “Joint House & Senate Small Business Committee Hearing: Prosperity on Main Street: Keeping Taxes Low for Small Businesses.”

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Chair Ernst, Ranking Member Markey, and Members of the U.S. Senate Committee on Small Business and Entrepreneurship (the “Committee”) thank you for holding a hearing together with the U.S. House of Representatives Committee on Small Business (the “House Small Business Committee”) titled, “Prosperity on Main Street: Keeping Taxes Low for Small Businesses.” My name is Caroline Bruckner, and I am a tax lawyer and professor with more than two decades of private practice and public service tax experience, including several years as counsel to this Committee. I know first-hand the vital role this Committee plays in tax debates. In my current role at American University Kogod School of Business (Kogod), I teach multiple tax classes to undergraduate and graduate students and coordinate our voluntary income tax assistance (VITA) volunteer program. I volunteer every tax season alongside my students to prepare tax returns for low-income D.C. residents. I also serve as the Managing Director of the Kogod Tax Policy Center (KTPC), which conducts non-partisan research on tax administration and compliance issues specific to small businesses and entrepreneurs. Our mission is to: (1) develop and analyze tax research and related policy recommendations; 2) promote public dialogue through publications and research, congressional testimony, submissions, and engagement; and (3) educate the press and policymakers on challenges facing small businesses and entrepreneurs.

Since 2015, I have focused the KTPC research agenda, in part, on the tax and compliance issues impacting self-employed small business owners and women business owners, the overwhelming majority of which are small businesses. In connection with the April 8 hearing, I would like to raise the issue of the small business tax literacy gap in connection with tax challenges small business owners face as well as new KTPC data on women as witnesses during Congressional legislative hearings. This research is particularly relevant to this Committee’s work on the 2017 tax bill (commonly referred to as the “Tax Cuts and Jobs Act” or “TCJA”).<sup>1</sup>

### **1. The Small Business Tax Literacy Gap is an Overlooked and Understudied Challenge of Small Business Owners that Continues to Grow.**

As noted by the National Taxpayer Advocate in their latest report to Congress, “[c]ertain groups of taxpayers face particular burdens due to the U.S. tax system’s complexity, and limited tax literacy exacerbates these challenges. One key example is small businesses, including the self-employed. Small businesses number more than 33 million, account for 99.9 percent of U.S. businesses, and employ 61.6 million employees (45.9% of the country’s workforce overall and 56.6% in rural areas).”<sup>2</sup> Unfortunately, tax literacy is a significant—albeit overlooked and understudied—challenge for small business owners and a factor in their tax compliance.<sup>3</sup>

At the same time tax literacy is important because it is the key to *functional* financial literacy. While recent state legislative efforts have focused on requiring general financial education for high school students,<sup>4</sup> there is no requirement that tax literacy be included in high school curricula or adult education programs. This omission is significant: tax literacy is not

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<sup>1</sup> Pub. L. No. 115–97.

<sup>2</sup> National Taxpayer Advocate 2024 Annual Report to Congress 106 (Most Serious Problem #8 Tax and Financial Literacy: Limited Tax and Financial Knowledge is Causing Serious Consequences for Taxpayers), <https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress/full-report>.

<sup>3</sup> See, e.g., Caroline Bruckner, KOGOD TAX POLICY CTR, SHORTCHANGED: THE TAX COMPLIANCE CHALLENGES OF SMALL BUSINESS OPERATORS DRIVING THE ON-DEMAND PLATFORM ECONOMY 1 (2016), <https://www.american.edu/kogod/research/upload/shortchanged.pdf> (2016); Small Business Tax Reform: Modernizing the Code for the Nation’s Job Creators: Hearing Before the H. Comm. on Small Bus., 115th Cong. 5 (2017) (testimony of Caroline Bruckner), [https://republicans-smallbusiness.house.gov/uploadedfiles/10-4-17\\_bruckner\\_testimony.pdf](https://republicans-smallbusiness.house.gov/uploadedfiles/10-4-17_bruckner_testimony.pdf).

<sup>4</sup> See, e.g., Nott, Iris, “Financial Literacy Programs Can Put Young People on Solid Fiscal Footing: At least 41 states, Puerto Rico and Washington, D.C., have financial literacy bills pending in the current legislative session.” National Conference of State Legislatures, (May 23, 2023), <https://www.ncsl.org/state-legislatures-news/details/financial-literacy-programs-can-put-young-people-on-solid-fiscal-footing>.

just a subset of financial literacy—it is foundational to it. Tax returns are essential for accessing a wide range of opportunities and benefits for small business owners, including:

- **Accessing Capital:** securing mortgages and loans (via IRS income verification programs); qualifying for credit cards, rental properties, and business capital; claiming business tax deductions and credits to offset tax liabilities
- **Offsetting Costs for Education & Healthcare:** Applying for federal student aid (FAFSA), claiming education or health care tax credits and deductions; and
- **Combatting Fraud and Identity Theft:** Proving eligibility for Social Security, health benefits, and other government programs.

Without basic tax literacy, millions of small business owners are unable to fully participate in the financial system and access the capital they need to grow their businesses, undermining many of the very goals of Congress has championed.

Since 2016, the KTPC has developed research on how millions of small business owners struggle to meet their tax filing obligations because they don't know how (or when) to comply with tax rules and, importantly, how these challenges can impact retirement savings.<sup>5</sup> For example, a 2023 KTPC survey of small business owners found that small businesses struggle with tax compliance because too many do not know what's due when or how to file and ultimately have to spend money to pay for tax advice or preparation services.<sup>6</sup> Moreover, KTPC research shows that a college degree does not guarantee essential tax literacy skills: while 76% of our respondents had a college degree (compared to 23.5% of the U.S. population), only 13.5% of our respondents learned how to do taxes in college (and only 7.5% learned how to do taxes in high school). Compounding these challenges is the fact that more than one-third of respondents reported that they never or only sometimes received tax forms from businesses that engaged them. It's not just high taxes that impact small businesses; compliance challenges posed by low tax literacy rates also play a significant role. This pain point is especially acute for small businesses that are more likely to use tax savings as a capital source to fund their operations.

## 2. The Consequences of Low Tax Literacy

KTPC research consistently indicates that the current tax administration system is not designed to facilitate compliance for small business owners and the independent workforce.<sup>7</sup> For example, tax research consistently shows that when workers' income is subject to both tax withholding and third-party information reporting, the tax filing process is typically straightforward. However, when there is no tax withholding or information reporting to IRS, as is the case with millions of independent workers, tax compliance rates drop significantly.<sup>8</sup> The extraordinary growth of small businesses and the independent workforce, along with the corresponding tax literacy gap has quantifiable implications for the tax gap, which is the difference between the amount of tax imposed by law and that which is ultimately collected. Last year, IRS published its latest estimate of the gross annual tax gap for 2022 and found it to be \$696 billion, which was comprised of (1) nonfiling (\$63 billion), (2) underreporting (\$539 billion), and (3) underpayment (\$94 billion). Of that \$539 underreporting tax gap, IRS estimated individuals failing to report all of their business income to be as much as \$194 billion, and individuals failing to correctly report their self-employment tax was \$71 billion.<sup>9</sup> While these estimates indicate that small businesses substantially contribute to the tax gap, they don't explain why.

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<sup>5</sup> See, e.g., Bruckner, Caroline & Jonathan Forman (2022). *Women, Retirement, and the Growing Gig Workforce*. GA STATE UNIVERSITY L. REV. 2 (2022). <https://readingroom.law.gsu.edu/cgi/viewcontent.cgi?article=3125&context=gsulr>.

<sup>6</sup> Bruckner, Caroline & Barbara Robles (April 2023). [The Small Business Tax Literacy Project: Understanding Tax Literacy Gaps for Small Business and the Growing Gig Workforce](#). Kogod Tax Policy Center in partnership with Public Private Strategies. Survey Infographic.

<sup>7</sup> Bruckner & Forman, *Women, Retirement & the Growing Gig Workforce*, *supra* n. 5.

<sup>8</sup> U.S. Government Accountability Office Statement of James R. McTigue, Director of Strategic Issues, (2019) *Tax Gap: Multiple Strategies Are Needed to Reduce Noncompliance*, before the Committee on Ways & Means, U.S. House of Representatives, <https://www.gao.gov/assets/gao-19-558t.pdf>.

<sup>9</sup> IRS Tax Gap Projections for 2022, IRS Publication 5869 (Rev. 10-2024), <https://www.irs.gov/pub/irs-pdf/p5869.pdf>.

Other KTPC research has found that small businesses struggle to comply with tax filing obligations because working outside of traditional employment—as a small business owner or as part of the independent workforce—often requires compliance with increased tax filing requirements with which these business owners have little familiarity and understanding (e.g., quarterly-estimated payments, self-employment tax).<sup>10</sup> This research is further evidenced by the latest KTPC survey results, which show that many taxpayers—even experienced small business owners—don’t know how to pay their taxes (25%) or whether they even had to pay quarterly-estimated payments (approx. 33%).<sup>11</sup> Taken together, this indicates that poor small business tax literacy is a likely contributor to the growing tax gap.

More recently, our team has begun leveraging large language models to analyze and synthesize data from publicly available tax literacy surveys, with a particular focus on identifying common information gaps and challenges facing small business taxpayers. Our findings reaffirm a troubling but well-documented reality: low tax literacy has significant and measurable consequences—particularly for those operating on tight margins.

Among the key insights from our analysis:

- **Lack of Awareness of Free or Low-Cost Filing Options:**

Many taxpayers, including small business owners, are unaware of low-cost filing options. For instance, only 13% of filers surveyed knew whether they qualified for IRS Free File, and awareness of other programs like VITA (Volunteer Income Tax Assistance) and TCE (Tax Counseling for the Elderly) was also extremely low.

- **High Reliance on Paid Tax Preparers, Even Among Eligible Free File Users:**

Despite qualifying for free services, many low-income filers still pay out-of-pocket for professional tax help. One survey found that 38% of eligible filers hired a preparer despite being eligible for Free File. The burden is even greater for small business owners, 90–91% of whom rely on paid preparers. On average, these services cost \$273 per return—an especially high barrier for lower-income and small business filers.

- **Fear and Anxiety Are Driving Taxpayer Behavior:**

Fear is a major driver in taxpayers’ decisions to hire professionals. The majority of filers (80–83%) report anxiety about making mistakes, missing out on refunds, or facing penalties. These fears—ranging from delayed refunds to criminal penalties—appear to discourage filers from exploring self-filing options, even when free and appropriate for their situation.

- **Widespread Gaps in Basic Tax Knowledge:**

Many taxpayers do not understand foundational tax concepts. Survey respondents often could not identify their own tax bracket or recognize standard forms such as the W-4. Only about one in four respondents passed basic tax knowledge assessments. This lack of understanding is particularly acute among small business owners: nearly half were unfamiliar with the Small Business Deduction, a critical benefit that could reduce their tax burden.

These findings underscore the urgent need for targeted policy efforts to increase tax literacy, expand outreach around existing programs, and reduce systemic complexity that disproportionately affects small business owners and vulnerable filers. Improving access to trustworthy, low-cost tax assistance is not only a matter of fairness—it’s a practical step toward empowering the backbone of our economy.

### 3. Recommendations for Addressing Small Business Tax Literacy Challenges

While this Committee does not have jurisdiction over tax matters specifically, this Committee can task the U.S. Small Business Administration to work with IRS and the U.S. Department of Treasury (Treasury) and other federal agencies that have financing programs targeted specifically to small businesses to work to close the small business tax literacy

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<sup>10</sup> Bruckner & Forman, *Women, Retirement & the Growing Gig Workforce*, *supra* n. 3; Bruckner, *Shortchanged*, *supra* n.

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<sup>11</sup> Bruckner & Robles, *supra* n. 6.

gap. This Committee can also work to ensure the following recommendations are included in a tax bill to prioritize and fund tax literacy education for small businesses. In particular, this Committee should take the following steps.

*A. Request Organization of Task Force to Measure Tax Literacy Among Small Business Taxpayers*

This Committee should request language be included in the forthcoming tax bill to require IRS and Treasury work with SBA to organize a task force to study small business tax literacy issues to develop a comprehensive strategy to regularly measure and test tax literacy, and to work to incorporate tax literacy content into SBA and Treasury financial literacy programming. Together with IRS, SBA should be tasked with developing recommendations for small business and independent workforce tax literacy modules for inclusion in financial literacy and civics curricula/courses developed for SBA programs, including those prepared and distributed among SBA's networks and programs.

*B. IRS Should Coordinate Inter-Agency Tax Education Strategy.*

This Committee should urge IRS to prioritize outreach and education of small business owners and the independent workforce by forming a tax information and education coalition together with SBA, U.S. Department of Agriculture, U.S. Department of Commerce and other agencies with small business financing programs. The coalition's main charter should be promoting small business tax education to facilitate compliance and access capital through tax savings.

*C. Expanded VITA Volunteer Recruiting.*

This Committee should urge IRS to work with SBA to promote Volunteer Income Tax Assistance (VITA) program recruiting through SBA's network of programs (e.g., Small Business Development Centers; Women's Business Centers; SCORE) and other small business financing networks (e.g., CDFI networks) as well as high schools, community colleges and university students.

Going forward, IRS/SBA should collaborate on funding and employing participatory research and tax awareness and education as a wholistic methodology for learning what type and level of tax literacy has the most significant impact on small business access to capital and facilitates compliance.

#### **4. The Ongoing Need to Hear from Women Business Owners**

Finally, this Committee has a better than average record of considering the impact of tax policy on women business owners, who now represent approximately 39.1% of all U.S. enterprises.<sup>12</sup> These business owners have grown in both number and economic impact in recent years. According to a recent 2024 report on the state of women-owned businesses:

1. Between 2019 and 2023, the number of women-owned businesses increased at nearly double the rate of those owned by men. From 2022 to 2023, the rate of growth increased to 4.5 times that of men's;
2. From 2019 to 2023, women-owned businesses' growth rate outpaced the rate of men's by 82.4% and, in 2022 to 2023 alone, by 59.1%; and
3. In 2023, 14 million women-owned businesses employ 12.2 million people and generate \$2.7 trillion in revenue.<sup>13</sup>

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<sup>12</sup> Wells Fargo, *The 2024 Impact of Women-Owned Businesses* (2024). Available at: [https://stories.wf.com/wp-content/uploads/2024/03/IWOB-2024-report\\_JD-V9\\_a11y.pdf](https://stories.wf.com/wp-content/uploads/2024/03/IWOB-2024-report_JD-V9_a11y.pdf).

<sup>13</sup> *Id.*



Although the growth of women business owners is remarkable, the ongoing challenges they have accessing capital remain. Research shows that two-thirds of women-owned firms “cannot access either some or all of the capital they need.”<sup>14</sup> Tax savings is an obvious strategy for these business owners to access capital, however, KTPC research consistently shows that when it comes to tax matters, women business owners are often overlooked and underrepresented at legislative hearings.<sup>15</sup> For example, in connection with the debate over the 2017 tax reform bill, at no point did either of the tax-writing committees meaningfully consider whether the bill would specifically impact women business owners.<sup>16</sup> In fact, “women participated as witnesses in only seven, and no women business owners testified at the sole [U.S. Senate Committee on Finance] hearing on business tax reform. Notably, no women testified at five (42 percent) of the twelve total tax reform hearings the tax-writing committees held on tax reform.”<sup>17</sup>

In 2024, our team published research on women testifying before Congress that found that the underrepresentation of women at congressional legislative hearings is not confined to the tax-writing committees. Specifically, our findings of more than 7,750 legislative hearings held by 16 congressional committees—including this Committee—from the 110<sup>th</sup> through the 116<sup>th</sup> Congresses show that of the 36,950 witness appearances at legislative hearings, women were underrepresented as a share of total witnesses.<sup>18</sup> In fact, women only appeared 9,071 times, or around 24.5% of the total.<sup>19</sup> During the same period, panels exclusively comprised of male witnesses totaled just under 40% of the nearly 7,750 hearings in our dataset. In contrast, excluding budget and agency oversight hearings, both of which commonly comprise a single representative from the Executive Branch (e.g., a cabinet secretary testifying at a budget hearing), women-only panels occurred a mere 83 times. In other words, just under 1.1% of all legislative hearings were women-only panels.

In November, our team presented our latest research on women testifying at tax legislative hearings at the American Tax Policy Institute Symposium on gender and tax policy. This latest research identified a total of 1068 witnesses testifying at 234 tax hearings before this Committee, the House Small Business Committee as well as the tax-writing committees during the 110<sup>th</sup> (2007) into 118<sup>th</sup> Congress (to April 2024) (the “Review Period”).<sup>20</sup> In addition, this research includes analysis of 2,452 statements submitted in connection with the tax hearings for publication in the Congressional Record. This latest research finds that women were systemically underrepresented as witnesses at tax hearings during the Review Period. At the same time, using large language models to capture the diversity of opinions provided by witness testimony and statements for the record, we found that women provide unique information to policymakers during tax hearings.<sup>21</sup>

There is prior research on how women business owners benefit from—or are overlooked and underserved by—different tax provisions targeted to small business.<sup>22</sup> However, this Committee can play a critical role in the coming

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<sup>14</sup> *Id.* at 21.

<sup>15</sup> Bruckner, Caroline (2020): *Doubling Down on a Billion Dollar Blind Spot: Tax Reform and Women Business Owners*. AMERICAN UNIVERSITY BUSINESS LAW REVIEW, Vol. 9, Iss. 1. Available at: <https://digitalcommons.wcl.american.edu/cgi/viewcontent.cgi?article=1129&context=aublr>

<sup>16</sup> *Id.*

<sup>17</sup> *Id.* at 17-18.

<sup>18</sup> Collin Coil, Caroline Bruckner, Natalie Williamson, Karen O'Connor & Jeff Gill (15 Feb 2024): [Still Underrepresented? Gender Representation of Witnesses at House and Senate Committee Hearings](#), JOURNAL OF WOMEN, POLITICS & POLICY, DOI: 10.1080/1554477X.2024.2311023.

<sup>19</sup> *Id.*

<sup>20</sup> We reviewed published hearing transcripts and statements for the record in connection with tax hearings held by the U.S. House of Representatives Committee on Ways and Means and the U.S. Senate Committee on Finance as well as hearings organized by the U.S. Senate Committee on Small Business and Entrepreneurship and the U.S. House of Representatives Committee on Small Business.

<sup>21</sup> Bruckner, Caroline and Collin Coil, “Overlooked and Undervalued: An Investigation of Women Business Owners & Congressional Tax Hearings,” PITTSBURGH TAX REVIEW (Forthcoming 2025).

<sup>22</sup> Bruckner, *supra* n. 15.

months as the tax provisions from the 2017 tax reform bill are debated by working to ensure that women business owners are included as witnesses at legislative hearings. In addition, this Committee should work with the Joint Committee on Taxation to include demographic distribution data when estimates of small business tax expenditures are debated in connection with the work on improving tax policy for small business owners. Updating small business tax expenditures to make smarter, equitable investments in the small businesses who will grow our economy is a vital function of this Committee.

Again, thank you to the Committee for holding this important hearing. I stand ready to help the Committee with its work. Feel welcome to contact me with questions regarding the foregoing.