U.S. Chamber of Commerce

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April 29, 2025

The Honorable Joni Ernst
Chair
Committee on Small Business &
Entrepreneurship
United States Senate

The Honorable Ed Markey
Ranking Member
Committee on Small Business &
Entrepreneurship
United States Senate

The Honorable Roger Williams
Chairman
Committee on Small Business
United States House of Representatives

The Honorable Nydia Velazquez
Ranking Member
Committee on Small Business
United States House of Representatives

Re: Letter for the Record: April 8, 2025 Joint Hearing titled *Prosperity on Main Street: Keeping Taxes Low for Small Businesses*

Thank you for convening the hearing titled *Prosperity on Main Street: Keeping Taxes Low for Small Businesses*. The U.S. Chamber of Commerce is pleased to submit this letter for the record on this critically important topic.

The U.S. Chamber of Commerce ("Chamber") is the world's largest business federation. It represents approximately 300,000 direct members and indirectly represents the interests of more than 3 million companies and professional organizations of every size, in every industry sector, and from every region of the country. And like the percentage makeup of small businesses in the United States, most of the Chamber's membership consists of small businesses.

Beyond our small-business members themselves, the Chamber benefits from the insights and advice of our Small Business Council, which is the policy committee made up exclusively of small business owners who work to ensure their views are considered as part of the Chamber's policy-making process. Several leaders from our Small Business Council traveled to Washington last October and in March to meet with members of Congress and staff on the importance of legislative action that must be taken this year to prevent a massive tax increase on small businesses.

Small businesses form the backbone of our economy, employing nearly half of the American workforce and contributing significantly to innovation and community development. Pro-growth tax policies like the 20% deduction for pass-through business income, the deduction for research expenses, and 100% bonus depreciation (full capital expensing for certain business assets) are critical to maintaining their competitiveness.

Preserving the Deduction for Qualified Business Income

To ensure that pass-through businesses like sole proprietorships, partnerships, and S corporations—including most small businesses—would not be placed at a major tax disadvantage relative to C corporations, the 2017 Tax Cuts and Jobs Act ("TCJA") established a new 20% deduction for qualified business income ("QBI") in section 199A of the Internal Revenue Code. Coupled with TCJA's reduction of the top marginal individual income tax rate from 39.6% to 37%, the QBI deduction results in a top marginal rate of 29.6% for most pass-through businesses. And since it took effect in 2018, the deduction has increased the after-tax return on capital investments in pass-through businesses and boosted the amount of revenue accruing to workers through higher wages. Last year alone, the total U.S. economic activity supported by the QBI deduction was estimated to be 2.6 million workers earning $161 billion and generating $325 billion of gross domestic product ("GDP").[1]

Small Business Council member Brendan McClusky, President of Trident Builders in Baltimore, came to Washington in March to meet with lawmakers on the importance of making the QBI deduction permanent. Brendan explained that the 20% deduction made it possible for him to institute a 401(k) program, including matching for employees. There are countless other examples of how the QBI deduction has liberated capital and allowed small business owners to reinvest in their businesses, their employees, and their communities.

For these reasons, the Chamber strongly supports the Main Street Tax Certainty Act that was recently reintroduced in both houses of Congress.

Restoring the Deduction for Research and Development Expenses

For nearly 70 years, U.S. businesses had been allowed to immediately deduct 100% of their research and development ("R&D") expenses, which include costs associated with the development, testing, and improvement of products and services. As of January 2022, however, businesses have been required to amortize (deduct ratably) their domestic R&D expenses over five years and their foreign R&D expenses over 15 years, reducing the real value of those deductions due to inflation and the time value of money.[2]

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[1] Ernst & Young LLP, *Economic Activity Supported by the Section 199A Deduction* (Aug. 2024), https://s-corp.org/wp-content/uploads/2024/09/EY-SCA-Economic-activity-supported-by-Section-199A-deduction-August-2024-FINAL.pdf.

[2] Through the combination of inflation and the opportunity cost of delaying the deduction (i.e., what the money could have otherwise earned), businesses cannot fully recover the cost of their R&D investments.

The past Chair for our Small Business Council, Natalie Kaddas, President & CEO of Kaddas Enterprises in Salt Lake City UT, a second-generation small family business, explained in the *Salt Lake Tribune* that 18% of wages in her thermoformed plastic part manufacturing company support R&D and the inability to deduct those wages resulted in a 35% tax hike.[3] Her example mirrors the experiences of other small manufacturers whose capital can no longer be re-invested in the growth of their businesses, higher salaries, technology improvements, and more robust benefits for their employees.

For those reasons, the Chamber strongly supports the American Innovation and R&D Competitiveness Act, which was recently reintroduced in the U.S. House of Representatives.

Restoring a Pro-Growth Interest Deductibility Standard

Debt financing plays an important role in supporting growth. Many businesses need to borrow funds to finance long-term investments in equipment and facilities, which in turn help create jobs and enable them to compete effectively. Since January 2022, however, American businesses have been subject to a new, stricter limitation on their ability to deduct interest expense based on an earnings-before-interest-and-taxes ("EBIT") standard. This new EBIT-based interest deductibility limitation has increased the after-tax cost of capital, which reduces investment in the U.S. economy and adversely affects jobs, employee compensation, and GDP.[4] A significant portion of the stricter interest deductibility limitation is estimated to fall on workers through reduced labor productivity, wages, and employment portion.[5] And of the 35 countries with earnings-based interest deductibility limitations, all but the United States still use the more competitive earnings-before-interest-taxes-depreciation-and-amortization ("EBITDA") standard.

For these reasons, the Chamber strongly supports the American Investment in Manufacturing and Main Street Act (AIMM), which was recently reintroduced in the U.S. House of Representatives. Restoring full bonus depreciation would encourage small businesses to modernize operations and remain competitive.

Restoring 100% Bonus Depreciation

Since the TCJA's passage through 2022, American businesses were allowed to immediately and fully deduct their costs associated with the purchase of certain capital assets,

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[3] Natalie Kaddas, Opinion, *On Tax Day, Small Businesses Call on Congress to Help American Manufacturing Compete*, Salt Lake Trib., Apr. 18, 2023, https://www.sltrib.com/opinion/commentary/2023/04/18/natalie-kaddas-tax-day-small/.

[4] Ernst & Young LLP, *Economic Impacts of a Stricter 163(j) Interest Expense Limitation* (Oct. 2023), https://documents.nam.org/COMM/EY_NAM_Economic_Analysis_163j_Limitation_FINAL_10_06_2023.pdf.

[5] The scale of U.S. economic activity disrupted by the stricter EBIT-based interest expense limitation, before market adjustment, is estimated to be 867,000 workers earning $58 billion of compensation and generating $108 billion in GDP. *Id.*

including equipment, machinery, and other qualified property under a policy known as "100% bonus depreciation." This change was heralded by economists as a powerful pro-growth tax policy that eliminated a tax bias against capital investment and would help businesses invest, create jobs, and lift the economy while simplifying the tax system.[6] And recent research has confirmed 100% bonus depreciation as one of the most impactful tax policies for business investment.[7] Starting in 2023, however, bonus depreciation has declined by 20 percentage points each year, increasing the after-tax cost of purchasing new machinery and equipment. It is currently scheduled to phase out completely after 2026, which will lead to less investment, fewer jobs, lower wages, and slower economic growth.

For those reasons, the Chamber strongly supports the Accelerate Long-term Investment Growth Now (ALIGN) Act that was recently reintroduced in both houses of Congress.

Conclusion

The Chamber is grateful for both Committees holding this hearing that will highlight the importance of keeping taxes low so that small business owners are able to reinvest in their employees through higher wages and more generous benefits. We urge Congress to prioritize making these provisions permanent and restoring full tax benefits where reductions have occurred. Small businesses thrive when provided with certainty and opportunities to reinvest earnings into their operations, employees, and communities.

Thank you for your leadership on these critical issues. We look forward to working together to ensure continued prosperity on Main Street.

Sincerely,

Thomas M. Sullivan
Senior Vice President
Small Business Policy
U.S. Chamber of Commerce

[6] *See, e.g.*, Alex Muresianu & Erica York, Tax Found., *How Did the Tax Cuts and Jobs Act Change Cost Recovery* (May 20, 2024), https://taxfoundation.org/blog/tax-cuts-and-jobs-act-expensing/.

[7] *See* Gabriel Chodorow-Reich et al., *Lessons from the Biggest Business Tax Cut in U.S. History*, NBER Working Paper No. 326272 (July 2024), https://www.nber.org/papers/w32672.