



The Honorable Harry Reid
Majority Leader
U.S. Senate
S-221 Capitol Building
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
S-230 Capitol Building
Washington, D.C. 20510

The Honorable John Boehner
Speaker
House of Representatives
H-232 Capitol Building
Washington, D.C. 20515

The Honorable Nancy Pelosi
Minority Leader
House of Representatives
H-204 Capitol Building
Washington, D.C. 20515

Dear Leader Reid, Leader McConnell, Speaker Boehner and Leader Pelosi:

On behalf of the National Small Business Association, I encourage you to immediately consider the tax provisions which expired at the end of 2011, including the research and experimentation (also commonly referred to as the R&D) tax credit, bonus depreciation and the threshold for section 179 expensing, all of which are intended to help small business owners invest in their businesses.

Celebrating its 75th anniversary, NSBA has been the nation's leading small-business advocate, and tax reform has consistently remained one of NSBA's top ten priorities. The current tax code is comprised of more than 10,000 pages of laws and regulations that serve as a disadvantage to small businesses, and are egregiously complex and constantly in flux. While 73 percent of NSBA members support broad tax reform, we recognize that is unlikely to happen in the near future, and instead are calling on Congress to act now and renew the dozens of tax incentives for small businesses that encourage job creation, investment, research and international competitiveness.

As part of the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* (TRUIRJCA) – enacted into law on Dec. 17, 2010 – Congress extended various expired and expiring tax provisions through Dec. 31, 2011. Most of these provisions had expired on Dec. 31, 2009, and were among those temporary provisions that have typically been extended numerous times over recent years as part of the annual package of “traditional tax extenders.” Those items include an array of tax provisions benefiting both individuals and businesses.

However, these business tax provisions that enjoy bipartisan support expired at the end of 2011 when Congress failed to agree on legislation to extend them. Due to budgetary and political restraints, too many of these provisions were enacted on a temporary basis, requiring repeated extensions. The uncertainty resulting from such temporary tax policy makes it difficult for small

businesses to plan effectively for the future, creating significant uncertainty and making it increasingly difficult to remain competitive in an increasingly global marketplace.

Some of the most important, expired small-business provisions that Congress should address now, are:

Bonus Depreciation—In 2012, bonus depreciation reverts to 50 percent, down from 100 percent, of the purchase price of newly acquired equipment, and after 2012 bonus depreciation goes away entirely. More than half of NSBA members would have a moderate to significant impact on the 50 percent reduction.

Section 179 Expensing—For 2012, the dollar limit for section 179 expensing drops to \$125,000 from \$500,000. For 2013 and later years, the dollar limit will revert to \$25,000. More than one in three NSBA members take advantage of this break as it encourages small businesses to invest in new equipment by letting them expense much of the cost up front, instead of depreciating it over time.

Alternative Minimum Tax— For 2012 and future years, the AMT exemption amounts revert to lower statutory amounts ranging from \$22,500 to \$45,000 which, absent Congressional action, would ensnare more than 25 million additional households in 2012.

Write-off for Certain Qualified Leasehold Property—The 15-year depreciation write-off is no longer available, and qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property will be depreciated over 39 years. This break is needed because the 39-year depreciation schedule for buildings does not reflect actual business reality and having to wait to write-off improvements raises the cost of these investments.

Research and Experimentation Credit (Also commonly called the R&D Credit)--The 20 percent credit for excess qualified research expenses expired after 2011. The failure to at least maintain the 20 percent credit increases the risk that the jobs, capital investment, and intangible property developed in the R&E process will move overseas.

Work Opportunity Tax Credit—The credit available to employers equal to 40 percent of qualified first-year wages earned by individuals within specified groups' sunset after Dec. 31, 2011.

Exclusion on Capital Gains of Small C-Corp Stock Acquired in 2011—If one acquired stock in a small C-corp in 2011 and holds those shares of stock for a minimum of five years, the capital gains on those shares can be excluded 100 percent from taxes. That exclusion decreased to 50 percent in 2012.

Additionally, another key tax provision Congress should consider is the ability for the self-employed to deduct their health insurance as a business expense. They are the only business entity that does not receive the tax option of deducting the full costs of their health insurance. For one-year only (2010), self-employed individuals were able to fully deduct the cost of their health insurance from their self-employment taxes. Though only applicable to 2010 tax returns, the

passage of this provision was a critically important first step and signaled that lawmakers understand the egregious nature of this tax penalty. The self-employment tax credit should be retroactively applied to the 2011 and current tax years.

Complexity and inconsistency within the tax code pose a significant and increasing problem for small businesses. The ever-growing patchwork of credits, deductions, tax hikes and sunset dates is a roller coaster ride without the slightest indication of what's around the next corner. Without either renewal of these tax extenders or comprehensive tax reform, the investment and hiring decisions of businesses must be made in an uncertain and confusing business environment. This is unsustainable and unacceptable.

NSBA urges Congress to quickly enact legislation to extend the temporary business tax provisions that expired at the end of 2011 so that individuals and business can better plan for the future. By Congress renewing these tax extenders businesses will be encouraged to invest in new equipment, hire more workers and spend more money on research and development, which in turn will help strengthen our economy.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd McCracken", with a long horizontal line extending to the right from the end of the signature.

Todd McCracken
President and CEO