ISSUE BRIEF

NSBA
National Small Business Association®

America's small business advocate

Deficit Reduction and Entitlement Reform

Deficit reduction and entitlement reform are crucial to small business

Reducing U.S. deficits and debt have a real benefit to small-business growth in the U.S. and is something America's small-business owners feel strongly about. The U.S. has always been a leader in entrepreneurship, however if we do not address our record-high national debt and annual budget deficits, our global competitiveness will be stymied. To address these issues, NSBA supports a two-pronged approach to reduce annual budget deficits and lower the national debt: tax policy reform and entitlement reform.

Tax Policy Reform

One way to address the nation's deficit and debt crisis is to simplify the tax code, broaden the base, lower all individual and corporate tax rates, and make business taxes more globally competitive for U.S. business. These reforms will create a surge in economic growth.

Federal spending in 2010 amounted to approximately 24 percent of gross domestic product (GDP)—a level not seen since World War II—in part due to the economic downturn. Even with an economic recovery and the ensuing increase in tax revenues and decrease in spending on stimulative and safety net programs—without major changes—federal spending will continue to outpace revenues. If we continue to run high deficits, increased interest rates and constricted credit will negatively impact small businesses' ability to garner financing, the life-blood of every small firm.

Entitlement Reform

The nation's long-term economic health cannot be assured unless the government gets control over its most costly entitlement programs. In light of many contributing factors: health care costs growing faster than the economy; the aging and increased life-expectancy of a Baby Boom generation reaching retirement eligibility; negative personal savings rates; and the fact that 55 percent of the elderly currently rely on Social Security for the majority of their income, Social Security and Medicare will be unsustainable in the long-run absent significant reforms.

Starting in 2015, Social Security expenses are expected to exceed cash revenues. The benefit structure and cost of the program must be addressed for any reform to succeed. Retirement savings and Social Security impact small-business owners and employers uniquely. Whether through the disproportionate cost and complexity of offering a 401K or other retirement plan to employees, or through the self-employment taxes (15.3 percent FICA payroll tax--12.4 percent for Social Security and 2.9 percent for Medicare) on the cost of health insurance that no other business owner or employee pays, small businesses face an unfair burden when it comes to these entitlement programs.

Small businesses have been open to enabling pre-funding of Social Security accounts and support allowing individuals to redirect a percentage of their payroll taxes to personal retirement accounts for investment in broad-based investment funds. Additionally, individuals ought to have the option to invest their funds into small businesses.

Another significant contributor to annual budget deficits is the Medicare program. Through much needed health care cost-containment reforms, Medicare can ensure its long-term viability, as well as provide innovative models of care and reimbursement that ensure quality, affordable health care. Tested cost containment initiatives can be used to inform commercial insurers, negotiate cheaper prescription drugs, establish greater transparency, spread health information technology, expedite a value-based purchasing system and new payment models, and eliminate waste, fraud and abuse.

Lawmakers finally appear to see that the fiscal problems facing the U.S. must be addressed. Although the recommendations forwarded by the President's National Commission on Fiscal Responsibility and Reform didn't garner the required number of votes for a formal recommendation, NSBA applauds their work as an important first step, and urges Congress to stay vigilant on reducing the U.S. deficit.