

Reform the Current Tax Regime

Americans deserve a simpler, fairer, more pro-growth tax system

The need for tax reform is urgent. One of the greatest obstacles to increased economic growth and more expensive living standards is an impossibly complex and ever-changing tax code. While there are many obvious problems with the current tax system, there are two paramount issues that must be addressed. The first major problem with the system is the generally high marginal rates of taxation on income. The other, perhaps more significant dilemma is the almost impossible task of compliance with all the rules and regulations.

The current tax code is comprised of more than 70,000 pages of laws and regulations that inevitably weaken the economy's strength by punishing work, investment, risk-taking and entrepreneurship. The tax code is unfair to small businesses, biased against savings and investment, and impossibly complex. Small businesses simply cannot cope with the ever-changing nature of the tax code. In addition, the current tax system impedes small-business growth by discouraging long-term investment, instituting a complex and resource draining estate tax, and by hindering job creation with an over-reliance on payroll taxes. A tax system dedicated to investment, savings and small-business growth must be put in its place.

Most small businesses are sole proprietorships, subchapter S corporations or limited liability companies. Most of the remainder are partnerships (either limited or general). There are also some business trusts. All of these businesses are pass-through entities that are subject to individual tax rates not the corporate tax rates. Some small businesses are C corporations that are subject to the corporate income tax, but these are a relatively small percentage and a large portion of these companies' net income before compensating the owners' is usually consumed by paying the owners' salary. This salary is also subject to the individual tax rates.

Thus, for the overwhelming majority of small businesses, individual marginal tax rates are much more important than corporate marginal tax rates. Broad reform of the entire tax code is necessary, not just for corporate entities. The overwhelming majority of small businesses are pass-through entities and therefore pay business taxes through their individual income tax. Allowing the smallest businesses to pay a much higher tax on their business income than a multinational, multi-billion corporations undercuts any semblance of fairness. Since small businesses disproportionately contribute to job creation, raising individual marginal tax rates can be expected to have a disproportionate negative impact on job creation.

If Congress overhauls the tax system by dramatically broadening the base—cutting the breaks that litter the tax code—and lowering rates, we would see real economic growth and raise revenues.

As both Congress and the American people debate what tax system should replace the current system, NSBA believes it is imperative that the U.S. moves toward a simpler, fairer tax system that incorporates the following principles:

- Designed to tax only once
- Stable and predictable
- Visible to the taxpayer
- Simple in its administration and compliance
- Promote economic growth and fairness between large & small businesses
- Use commonly understood finance/accounting concepts
- Grounded in reality-based revenue estimates
- Fair in its treatment of all citizens
- Transparent