

Office of Advocacy Makes Recommendations for Small Business Tax Reform

On September 24, 2009, the Tax Subcommittee of the Presidential Economic Recovery Advisory Board requested ideas for tax reform. <http://www.whitehouse.gov/blog/Tax-Reform-Subcommittee-Requests-Ideas/submit/>. On September 29, 2009, the U.S. Small Business Administration's Office of Advocacy (Advocacy) filed a comment letter with recommendations for tax reform to the Tax Subcommittee. Based on years of feedback from small businesses on tax burdens, Advocacy recommended: (1) simplifying the home office business deduction; (2) equalizing the tax deductibility of group health insurance costs; (3) eliminating the three percent withholding requirement for government contractors; and (4) continuing to permit small businesses to use the last in, first out (LIFO) inventory accounting method. A complete copy of Advocacy's comments may be accessed at <http://www.sba.gov/advo/laws/comments/>.

- Fifty-three percent of all small businesses are home-based businesses, and the complexity of the current home office business deduction rules is such a prominent issue in the small business community that Congress has introduced several pieces of legislation during the last few years to address this problem.
- Although C corporations may obtain a deduction for health insurance premiums as an "ordinary and necessary" business expense, self-employed small business owners – sole proprietors, partners in partnerships, and S Corporation owners – are unable to deduct the cost of health insurance premiums.
- The three percent withholding requirement will adversely impact all small businesses that provide services to Government entities. Most small businesses that provide services to Government entities will have to increase their debt level in order to ensure sufficient cash flows and will be forced to pass these additional expenses on to their Government customers. The three percent withholding requirement will force many other small firms that are unable to secure additional debt out of the Federal contracting business.
- Prohibiting businesses from using LIFO would raise business taxes in two ways. First, a business would see higher future taxes because it would be unable to use LIFO to protect itself from rising inventory costs. Second, a business would be required to pay taxes on its existing "LIFO reserves."

For more information, visit Advocacy's Web page at <http://www.sba.gov/advo> or contact Assistant Chief Counsel Dillon Taylor by email at dillon.taylor@sba.gov or by phone at (202) 401-9787.