



## OBAMA SMALL BUSINESS PLAN IS THE WRONG SOLUTION FOR AMERICA'S ENTREPRENEURS

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On Monday, the Obama Administration announced a series of government-focused solutions for America's small business sector. Unfortunately, none of them involve long-term ideas to incentivize small businesses to be created or hire more employees.

Below are ten ideas President Obama could get started on right away to help America's struggling small business sector:

*1. Remove the looming tax hike on most small business profits.* Since small businesses pay their income taxes on their owners' tax returns, increasing personal income tax rates is a tax hike on small business profits. In fact, at least \$2 out of every \$3 in small business profits is earned in households making at least \$200,000 per year. So the Pelosi-Reid-Obama plan to raise the top two tax rates is a direct tax hike on the lion's share of small business profits. It's like a Sword of Damocles hanging over the heads of small business owners

*2. Cut the top marginal tax rate.* Since most small business profits are taxed in the top two brackets, these tax brackets should be cut, not raised. A good principal should be that nobody should have to pay more than 25% of their income in taxes. Any rates higher than this should be cut down to 25%. This would be an immediate cut for small businesses, and would remove the current rate structure's bias against future small business profits. Firms with fewer than 100 employees account for over one-third of employment in America. Cutting this tax rate will put more people to work

*3. Cut the self-employment tax rate.* Small businesses organized as sole proprietorships or general partnerships must pay two layers of tax—the income tax, and a “self-employment tax” (which is equivalent to the employer plus the employee “shares” of the FICA tax). As a result of the interaction of these two parallel tax structures, growing small businesses often face higher marginal income tax rates than established small businesses. This is unfair, and imposes ridiculously high marginal tax rates on modest business profits. The self-employment tax should be cut in half to a flat rate of 7.65% (1.45% after the Social Security wage base is exceeded), the same rate faced by the employee's “share” of FICA

*4. Allow full business expensing.* Small businesses are already allowed to expense business purchases today, but only up to \$250,000 in assets purchased (there are also other limitations). Any asset purchases not eligible for expensing must be slowly deducted, or depreciated, over many years. For small business owners, a tax cut delayed is a tax cut denied. The cap on small business expensing should be lifted, and

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all other limitations removed. This will incentivize small businesses to invest more in growing their firms

*5. Uncap small business contributions to retirement plans.* It's no secret that America is facing a retirement savings crisis. The looming threat of Social Security's bankruptcy conspires with a halved stock market and a low savings rate to foil our retirement safety. One easy solution to help turn things around would be to uncap the amount that small businesses could contribute to owner and employee retirement plans. Anything contributed should be deductible against both income and self-employment tax. There should be no contribution limits at all. Now more than ever, America needs to hyper-charge retirement savings

*6. Create a small business health care tax credit, and allow businesses to shop for health insurance across state lines.* Small businesses currently get a tax deduction for health insurance paid, and even this is limited to only an income tax deduction for the owner. Convert this deduction into a dollar-for-dollar credit. Let small businesses reduce their tax burden by how much they spend on health insurance premiums, health cost reimbursement, and health savings account (HSA) contributions. Furthermore, allow small businesses to get the best deal possible for their employees by letting them purchase health insurance across state lines

*7. Create a "standard deduction" for a business owner's home office.* The IRS Office of Taxpayer Advocate has said that millions of small business owners entitled to take a deduction for a home office fail to do so. They recommend the creation of a "standard deduction" for qualifying home offices, to relieve entrepreneurs of needless recordkeeping. Various sources have proposed a \$2500 standard deduction for this as reasonable

*8. Allow small businesses to use the same "fringe benefits" that large corporations get.* Small businesses owners cannot take advantage of the same "fringe benefits" (e.g., commuting passes) that large corporations can use. Leveling the playing field for small business owners would incentivize small business creation

*9. Restore full deductibility of business meals.* In a misguided effort to get rid of the mythical "three martini lunch," Congress has limited the deduction for business meals to 50%. This arbitrary limit hurts small business owners, who don't have boardrooms or clubs, but often do business at the lunch counter. Businesses should be able to deduct all legitimate business costs, no matter where it's done from

*10. Remove limits on business use of automobiles.* Business owners often can't take full advantage of the business use of their cars, thanks to "luxury" limits on cars worth more than about \$8000. There are also limits on car lease deductions. Lifting the cap on business use of cars would make the whole system more transparent and common-sense.