The Honorable Joseph R. Biden, Jr.
President of the United States
1600 Pennsylvania Avenue, NW
Washington, DC 20500

The Honorable Nancy Pelosi
Speaker of the House
H-232 of The Capitol
Washington, DC 20515

August 23, 2021

Dear President Biden and Speaker Pelosi:

We can all agree that small business owners have been hit hard by the COVID-19 pandemic as they are still reeling from mandatory state and local shutdowns and the economic downturn. At a time when Main Street USA is focused on recovering from the health and economic effects of the pandemic, the last thing they need is the devastating tax increases that you have proposed to fund your profligate spending.

Make no mistake: these tax hikes will negatively impact all types of small businesses. A new survey by the Small Business and Entrepreneurship Council found a majority of small business owners believe these new taxes will significantly hurt their ability to recover from the pandemic.1 This is unacceptable and is not appropriate or economically advisable to saddle small businesses with increased tax burdens.

First, your proposals slash the 20 percent small business deduction, enacted by the Tax Cuts and Jobs Act of 2017.2 Fortunately, Senator Steve Daines’ (R-MT) amendment during the Senate’s consideration of the budget resolution preserves this deduction and demonstrates its bipartisan support. According to Internal Revenue Service data, more than 21 million small business owners claimed the 20 percent deduction on qualified business income, also called the small business deduction, during the 2020 tax filing season. This provision created more than

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$66 billion in savings for small business owners in 2019. The benefit allows owners of “pass through” businesses, such as sole proprietors, subchapter S corporations and partnerships, to claim up to 20 percent of their business income from taxes. As a result, small businesses can now reinvest in their businesses by purchasing new equipment, enlarging their buildings, and hiring more employees, which benefits their employees, their communities, and our nation’s economy. More than 80 percent of National Federation of Independent Business’s (NFIB) members say this deduction is important to their business, and more than 90 percent would like it to be made permanent.

Second, your proposals nearly double the long-term capital gains rate from 23.8 percent to the top ordinary capital gains rate of 39.6 percent. In an August 2021 Small Business and Entrepreneurship Council survey, 60 percent of small business owners opposed this sharp increase. In fact, the top rate high-earning Americans pay on dividends, and the sale of appreciated assets would jump to nearly 49 percent when combining all federal and state taxes. Eliminating the current long-term rate would have enormous implications for any sale of a small business. According to U.S. Census Bureau data cited by the Small Business Administration’s Office of Advocacy, two-thirds of small business owners plan to sell their business.

Third, your proposals repeal the step-up in basis of an inherited asset at death, the “stepping up” the value of the asset and taxing it at its current market value. This means the asset will be retroactively taxed on the investment’s gain when transferred at the owner’s death. Current law allows for stepping up the basis to the asset’s value at the time of the original owner’s death, so those inheriting the investment are not hit by both the capital gains tax and the death tax. Your proposal will re-impose both. A study released by the Committee to Unleash

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4 Id.
10 Id.
Prosperity found that eliminating the stepped up basis would sharply increase the tax liability of small business owners and family-owned farms and ranches.\textsuperscript{11}

Fourth, your proposal eliminates 100 percent bonus depreciation on most investments immediately, rather than phasing it out.\textsuperscript{12} Bonus depreciation allows small businesses to deduct the cost of certain business purchases, such as new equipment or machinery, in the year it is purchased and placed into service rather than over a period of several years.\textsuperscript{13} This provision was enacted to encourage investments by small businesses and boost the economy. For many years, small business owners have testified before the House Small Business Committee reaffirming that expensing is critically important to them.\textsuperscript{14} Eliminating this provision simply means small businesses will have less capital with which to operate.

Fifth, your proposals hike the corporate tax rate from 21 percent to 25 percent, or even 28 percent. Despite the Democrat rhetoric to the contrary, increasing the corporate tax burden would negatively impact many small businesses. A recent analysis of Internal Revenue Service and U.S. Census Bureau data found 1.4 million small businesses organized as C corporations in every sector of the economy will be negatively impacted by corporate tax rate increases.\textsuperscript{15} Although many small businesses are organized as “pass-through” entities, many are in fact organized as C corporations. They, too, will be negatively impacted by a corporate tax rate increase. According to a study by the non-partisan Tax Foundation, nearly one quarter of small businesses are structured as C corporations,\textsuperscript{16} including those in manufacturing, utilities,
transportation, information technology, finance, wholesale and retail trade, and mining.\textsuperscript{17} These are companies that we hope will expand and become large businesses.\textsuperscript{18} They will not have that opportunity, or may be deterred from expanding, if they continue to be threatened with higher taxes. One study found that a decline in U.S. startups prior to 2017 tax reform could be explained by the higher corporate tax rate.\textsuperscript{19}

Despite your pledges not to raise taxes on those earning less than $400,000 per year, your proposal to raise the top marginal tax rate from 37 percent to 39.6 percent would adversely affect many small businesses.

Higher taxes are a constant concern for small business owners, as business decisions and planning are conducted on multiyear time frames, but that is not the only challenge they face. At a time when small businesses are trying to get back on their feet, they are also absorbing the impact of other economic damage. Inflation is at a twenty-year high and rising.\textsuperscript{20} The cost of goods and services is skyrocketing,\textsuperscript{21} with prices increasing 5.4 percent in July compared to a year ago.\textsuperscript{22} Supply chains have been disrupted, evaporating revenue.\textsuperscript{23} Small businesses still cannot find workers.\textsuperscript{24} They need stability, and more uncertainty means they cannot plan.

According to the Tax Foundation, the tax provisions in the American Families Plan would reduce the overall economy by 0.4 percent in the long term, primarily by increasing marginal tax rates on labor and investment in the pass-through sector.\textsuperscript{25} Wages would fall by 0.4

\textsuperscript{17} A. Durante, \textit{Many Small Businesses Could Be Impacted By Biden Corporate Tax Proposals} (Jul. 7, 2021), \textit{available at} https://taxfoundation.org/biden-small-business-tax/
\textsuperscript{18} Id.

percent and employment by 64,000 full-time jobs. Reducing the size of our nation’s economy will be detrimental to all businesses, families, and communities.

Collectively, the impact of this bad economic news is clear. It means existing small businesses will be forced to cut jobs, downsize, or close. Higher costs will be passed on to suppliers or consumers. Research and development plans may be scrapped. Overall, communities will not benefit from small businesses that cannot hire; are unable to purchase goods and services; or close their doors forever.

We strongly urge you to rethink your costly and unwise proposals to drastically increase taxes on small businesses. These are the Americans that are trying to lead us out of the pandemic and toward recovery. They do not deserve yet another debilitating attack on their families, livelihoods, and communities.

Sincerely,

Blaine Luetkemeyer (MO-3)  
Ranking Member  
Committee on Small Business

Jim Hagedorn (MN-1)  
Member of Congress

Dan Meuser (PA-9)  
Member of Congress

Andrew Garbarino (NY-2)  
Member of Congress

Beth Van Duyne (TX-24)  
Member of Congress

Roger Williams (TX-25)  
Vice Ranking Member  
Committee on Small Business

Pete Stauber (MN-8)  
Member of Congress

Claudia Tenney (NY-22)  
Member of Congress

Young Kim (CA-39)  
Member of Congress

Byron Donalds (FL-19)  
Member of Congress

26 Id.
Maria Salazar (FL-27)
Member of Congress

Scott Fitzgerald (WI-5)
Member of Congress