December 11, 2017

The Honorable Tim Scott
717 Hart Senate Office Building
Washington, DC 20510

Re: Tax Reform

Dear Senator Scott,

The small businesses of South Carolina and across this country are very concerned that they are not being treated fairly by the tax reform proposals being considered by the conference committee on which you sit. On behalf of the South Carolina Small Business Chamber of Commerce and Businesses for Responsible Tax Reform let me ask for clarity from you on some very important provisions in the House and Senate tax reform bills.

While I realize that few members of Congress are familiar enough with the details of both the House and Senate tax reform plans, you are in a position to clearly articulate how pass-through small businesses will be treated by both plans and any final tax reform bill presented to the chambers. The confusion and lack of transparency in this process is creating suspicion and a lack of trust with small businesses across America.

Senator, can you please address how small businesses will be treated by the House and Senate bills in regard to pass-through income and answer some basic questions of fairness.

**House Bill**

This is my understanding of how the House bill addresses taxation on pass-through income:

The House plan sets the tax rate for pass-through income at 25% but excludes “service companies” like lawyers, consultants and accountants from this cap. Then by 2022, tax rates on the first $75,000 of pass-through income is reduced from 12% to 9% but income above that reverts to the 25% cap.
Why are “service companies” discriminated against in the House bill? These small businesses like CPAs, attorneys, and consultants have employees and are very much a part of their communities. They are as deserving as any other business for a tax cut if other businesses are receiving them.

Since 85 percent of small businesses already pay at the 25% tax rate, the only income tax reduction for them (if they qualify) is a reduction of the rate from 12% to 9% on their first $75,000. Why are qualifying small businesses only deserving of this small tax cut phased in while C-corporations receive a much larger tax rate cut of 43% immediately?

**Senate Bill**

This is my understanding of how the Senate bill addresses taxation on pass-through income:

The Senate bill excludes up to 23% of pass-through income for taxation. But the actual excluded income is based on the total wages paid by the business. The more wages paid, the closer the small business owner gets to the 23% percent of income excluded from taxes. Then all income tax cuts for small businesses expire in 2025.

What is the exact formula for determining how much pass-through income will be excluded from taxation? Why do small businesses have to qualify for a tax cut based on how they are spending their money while C-corporations have no such qualifications to receive their tax cut? Is it fair to make the C-corporation tax cut permanent while making the pass-through tax cut temporary? Both types of businesses require certainty in taxation for making business plans and small businesses will have no certainty that a future Congress and President will make their tax cut permanent.

As you can see, Senator, small businesses are simply not being treated fairly by either the House or Senate tax reform plan. Certainly the tax proposal for small businesses is very complex while the tax cut for C-corporations is simple. Polling by the Businesses for Responsible Tax Reform shows that most small businesses oppose these plans. An overwhelming majority of small businesses feel that the plans clearly favor big businesses and oppose raising the national debt by $1.5 trillion.

I hope that you will be able to answer the above questions expeditiously since your first conference committee is this Wednesday.

I also ask for the opportunity for myself or someone else from Businesses for Responsible Tax Reform to speak to one of your next conference committee hearings.

Thank you for your attention and I look forward to your response.

Sincerely,

Frank Knapp Jr.

President & CEO, South Carolina Small Business Chamber of Commerce
Co-Chair, Businesses for Responsible Tax Reform