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This Small Business Week, a new report finds that 20 percent deduction for pass-through businesses does not apply equally to all small businesses, entrepreneurs may need to hire costly tax experts to take advantage of provision, and new territorial tax system puts them at a competitive disadvantage with large corporate competitors.

Washington, D.C., May 1, 2018 — A report analyzing the impact of the new tax law on small businesses released during National Small Business Week by Businesses for Responsible Tax Reform shows small businesses face increased complexity, steep competition from large companies with the means to take advantage of low tax rates created by the territorial tax system, and a 20 percent deduction on pass-through business income that does not apply equally to all small businesses and may require the services of costly tax experts to take full advantage of.

The report, “The Tax Cuts and Jobs Act: Implication for Small Businesses” analyzes two key changes that will affect small businesses: the introduction of the 20 percent deduction on qualified business income for pass-through businesses—how the vast majority of small businesses are organized—and the move toward a territorial system of taxation for large multinational companies with overseas subsidiaries. The report’s key findings are:

- The 20 percent deduction is unlikely to generate enough tax savings for small businesses to hire new employees or make significant operational improvements or capital investments. In addition, the deduction applies differently to different types of small
businesses. Small businesses that are primarily providers of a “specialized service” are subject to greater limitations on the deduction.

- The new tax law may not translate into significant savings for small businesses, many of which will require the outside expertise and incur the additional cost of accountants and tax lawyers in order to understand and satisfy their tax obligations.
- The territorial system of taxation adds complexity for small businesses operating internationally. On average, the international taxation of business income gives corporations a larger tax break and, as a result, puts small businesses at a competitive disadvantage.

“When you boil it down, the tax code has gotten exponentially more complicated for small business owners to navigate, creating new costs and competitive hurdles. They could easily spend $2,000 on an accountant trying to figure out this new pass-through deduction, which will completely wipe out savings they might have seen,” said report author and Businesses for Responsible Tax Reform Co-chair Anne Zimmerman, a CPA specializing in small business finance. “As a result of this law, regular mom and pop businesses are at a competitive disadvantage with large and wealthy businesses that will pay less in taxes because they can afford costly accountants and tax lawyers to search out loopholes and undertake expensive business restructuring to realize savings.”

The report, authored by Zimmerman and economist Elizabeth Glass, who previously worked at the Small Business Administration Office of Advocacy where she conducted economic research on tax policy and entrepreneurship, includes a detailed analysis and examples of how the 20 percent pass-through business income deduction applies to different small businesses and small business owners, and a detailed look at how the new territorial tax system benefits large multinational companies over small businesses.

“The blatant disregard Congress showed regular small business owners while rushing to give $1 trillion in tax cuts to large corporations is shocking,” said Businesses for Responsible Tax Reform Co-chair Frank Knapp, Jr. “This report shows just how callously the new tax law treats the entrepreneurs who are the engines of our economy. That is not something that should be forgotten come November.”

Click here to read the full report.

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**About Businesses for Responsible Tax Reform**

Businesses for Responsible Tax Reform is a coalition of business leaders calling for tax reform that truly benefits America’s small business owners. We are dedicated to ensuring tax reform is fiscally responsible, creates a level playing field for all businesses, grows the economy and works for our nation’s 30 million small business owners. Learn more about us on our [website](#) and follow us on [Twitter](#) and [Facebook](#).