



The Honorable Orrin Hatch  
Chair  
Committee on Finance  
United States Senate  
219 Dirksen Senate Office Building  
Washington, D.C. 20510

Dear Chair Hatch:

In response to your call for proposals and feedback on the American tax system, Women Impacting Public Policy (WIPP), a national, nonpartisan organization advocating on behalf of women entrepreneurs, submits the following statement as a recommendation on “strengthening businesses by lowering tax rates and broadening the relevant tax base in order to put the economy on a better path and to create jobs.”

The landscape of the American economy has changed significantly since the last time Congress overhauled the tax code in 1986. At that time, there were only 4.1 million women business owners. Today, there are more than 10 million women business owners – making up more than a third of all U.S. businesses – who generate more than \$1.4 trillion in revenues and employ 8.4 million people.<sup>1</sup> In rewriting the tax code, there are three important reforms that are most critical to helping women businesses owners to succeed: simplicity, fairness, and the effect of the tax code of women-owned businesses.

#### I. Simplification of the Tax Code

The current tax system is too complex, creating frustration and confusion for women-owned businesses. These complexities have led small businesses to struggle with the cost of compliance and pay far higher rates than large businesses. In fact, small firms pay 67% more in tax compliance.<sup>2</sup> This increased cost results from lack of in-house compliance resources for small businesses, which prevents them from taking advantage of the code’s complexity.

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<sup>1</sup> 10 Million Strong: The Tipping point for Women Entrepreneurs. National Women’s Business Council. 2016.

<sup>2</sup> Small Business Administration, “The Impact of Regulatory Costs on Small Firms,” 2010, at 7-8, *available at* [https://www.sba.gov/sites/default/files/The%20Impact%20of%20Regulatory%20Costs%20on%20Small%20Firms%20\(Full\).pdf](https://www.sba.gov/sites/default/files/The%20Impact%20of%20Regulatory%20Costs%20on%20Small%20Firms%20(Full).pdf).

WIPP asked members to identify solutions on simplifying the tax system for business owners. One example cited by our members is addressing accounting method changes. Form 3115 and its instructions list 220 different types of accounting method changes. Filing Form 3115 is costly and requires 80+ hours to complete, according to the IRS. Most entities elect to hire a tax specialist to deal with the complexities of this difficult form. One WIPP member described Form 3115 as the poster child for income tax system complexity. We suggest grouping categories of accounting method changes into different versions of Form 3115, such as EZ or A, B, and C tiers and giving small businesses a reduced (or no) filing requirement.

Another plausible solution to the problem of complexity is an IRS program for business owners similar to the Volunteer Income Tax Assistance (VITA) program, which offers free tax help to individuals who make \$54,000 or less. Likewise, the IRS could provide a VITA-like volunteer tax assistance program where IRS provided volunteers could receive pro bono credit for offering tax assistance clinics to qualified small business owners.

Simplifying the code would reduce the imbalanced cost of compliance and unfair difficulty for small businesses and should be a key component of any tax overhaul plan.

## II. Fairness for All Businesses

### Equitable Reform of Tax Rates

Equitable reform of tax rates for all businesses should be a critical component of tax reform. Businesses come in all formations and sizes, including partnerships, S-corps, C-corps, and sole proprietorships. Under recent tax reform proposals, agreement is centered around the need to lower the corporate tax rate in order to be globally competitive. However, the majority of businesses are not corporations. In fact, 90% of all businesses in the U.S. are pass-through entities<sup>3</sup> and 90% of women-owned businesses are small businesses.<sup>4</sup> At the federal level, these businesses are subject to a top individual rate of 39.6%, in addition to state and local taxes, which can raise the tax burden as high as 43.4%.<sup>5</sup>

In lowering the tax rate, Congress must consider all formations of businesses, including the millions of pass-through entities that pay business taxes as individuals. There must be equitable, comprehensive reform for all types. For example, a self-employed or single member LLC business owner, who files a Schedule C, uses Forms 8829 (Use of Home Office for Business)

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<sup>3</sup> Scott Greenberg, "Pass-Through Businesses: Data and Policy," Tax Foundation, (January 17, 2017).

<sup>4</sup> Women-Owned Businesses: Carving A New American Business Landscape, U.S. Chamber of Commerce Foundation Center for Women in Business at 6 (2014).

<sup>5</sup> *Supra*, n. 3.

and 4562 (Depreciation and Amortization) to report costs such as the use of a personal car for business. In addition, the Schedule C filer gets the full benefit of these two deductions. In comparison, partners in partnerships and S Corp shareholders (including single shareholders) must use Form 2106, along with a complex worksheet; report these costs on Schedule A; and are subject to the 2% floor, so they do not even get the full deduction. All of these entities are pass-through entities, yet treated differently.

When Congress undertakes tax reform, it must lower rates for businesses other than corporations. Simply lowering the corporate rate will not address the need to lower taxes for the majority of the nation's businesses.

### Repeal of AMT and Estate Tax

Additionally, any tax overhaul should include the repeal of the Alternative Minimum Tax (AMT). Every person and every entity that meet specific income amounts are subject to the AMT – individuals, corporations, trusts, and estates. This is the case even though the AMT no longer serves its original intent of ensuring that high-income individuals pay at least some income tax. It now impacts filers who are far from the top of the income distribution bell curve. Reform should also include repeal of the Estate Tax, allowing businesses to pass from one generation to the next. This meaningful reduction in taxes would reduce the burden on small business owners and give them additional capital to grow businesses and create jobs.

### III. Tax Code Effect on Women-Owned Businesses

The organization of the tax code has resulted in a disparate impact on women-owned businesses. A recent survey of 515 women business owners nationwide shows the majority of these women business owners do not fully benefit from key provisions of the U.S. tax code designed to stimulate small business growth, access to capital, and investment.<sup>6</sup>

While Congress intended that these expenditure provisions would stimulate small business access to capital or investment, the effect was that most women-owned businesses are excluded from three of the four provisions. The survey, conducted by WIPP and American University's Kogod Tax Policy Center, shows that women business owners do not take full advantage of more than \$255 billion in tax incentives due to how the businesses are legally organized and the industries they are in.<sup>7</sup> According to the survey, women primarily own businesses in service industries and are not organized as C Corporations; therefore, the

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<sup>6</sup> Caroline Bruckner, "Billion Dollar Blind Spot: How the U.S. Tax Code's Small Business Expenditures Impact Women Business Owners," (2017), available at [http://www.american.edu/kogod/research/upload/caroline-bruckner\\_blindspot\\_kogod-au.pdf](http://www.american.edu/kogod/research/upload/caroline-bruckner_blindspot_kogod-au.pdf).

<sup>7</sup> *Id.*

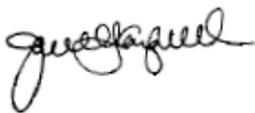
majority cannot benefit from some tax incentives because those incentives either exclude services firms or bypass firms that are not incorporated or have few capital-intensive equipment investments.<sup>8</sup>

Additionally, this research found that there is a dearth of government research into how women business owners use the tax code. This means Congress cannot make evidence-based tax policy decisions to help women-owned firms as it conducts the first comprehensive overhaul of the tax code since 1986.

Women business owners are a burgeoning economic force. A tax system that will help us thrive and succeed is good for the economy. As Congress considers its next step in reforming the tax code, WIPP urges Congress to enact a plan that creates a level playing field for women-owned small businesses and allows them to invest earnings into growing their businesses and creating more jobs.

Thank you for your consideration of WIPP's recommendations. If you have any questions, please feel free to reach out to me or Ann Sullivan, our Chief Advocate, at [asullivan@madisonservicesgroup.com](mailto:asullivan@madisonservicesgroup.com) or (202) 626-8528.

Sincerely,

A handwritten signature in black ink, appearing to read "Jane Campbell". The signature is fluid and cursive, with the first name "Jane" being more prominent than the last name "Campbell".

Jane Campbell  
President, Women Impacting Public Policy  
Director of the Washington Office, National Development Council

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<sup>8</sup> *Id.*