



## Targeted Tax Reform: Solutions to Relieve the Tax Compliance Burden(s) for America's Small Businesses

Testimony of Professor Caroline Bruckner, Executive-in-Residence, Accounting and Taxation and Managing Director, Kogod Tax Policy Center, Kogod School of Business, American University, before the U.S. Senate Committee on Small Business and Entrepreneurship

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Members of the Committee and staff, thank you for the opportunity to testify today on targeted tax reform solutions to relieve the tax compliance burdens of small businesses. My name is Caroline Bruckner and I am a tax professor at American University's Kogod School of Business. As part of my responsibilities at American University, I am also the Managing Director of the Kogod Tax Policy Center, which conducts non-partisan research on tax and compliance issues specific to small businesses and entrepreneurs. The Center develops and analyzes solutions to tax-related problems faced by small businesses and promotes public dialogue concerning tax issues critical to small businesses and entrepreneurs.

Prior to my appointment at Kogod, I served on the staff of this Committee from 2009 until 2014, ultimately as Chief Counsel, under the leadership of its former Chair, Sen. Mary Landrieu. During my tenure with the Committee, I handled tax, labor and budget issues and worked with small business stakeholders across the country and political spectrum to develop small business tax legislation, including the Small Business Jobs Act of 2010, which provided more than \$12 billion of tax relief for small businesses. In addition, at the direction of Chair Landrieu, I organized multiple hearings and roundtables to discuss tax and compliance issues specific to small businesses and entrepreneurs, and advised the Chair and Committee Members on small business tax policy recommendations in response to Senate Finance Committee requests for tax reform proposals.

In my current role at Kogod, I direct our team of small business tax policy experts, economists and researchers, and we are currently focused on developing

requirements of quarterly estimated payments or self-employment taxes.<sup>2</sup> As a result, many Emerging Entrepreneurs are finding out for the first time that they are liable for tax underpayment penalties.<sup>3</sup>

In addition, as reported by the *Wall Street Journal* earlier this year, some Emerging Entrepreneurs are facing penalty and audit exposure, despite the fact that in some cases, income earned from

Entrepreneurs. In the coming months, we will publish tax research and corresponding policy recommendations for your Committee and colleagues to review.

In the meantime, we applaud the Committee's initiative in discussing targeted tax solutions for America's small businesses. As many of you know, a one-size fits all approach for small business' tax compliance burdens is inefficient and fails to recognize the specific attributes and various criteria policymakers, academics, government agencies, and legal authorities rely on to characterize small businesses as opposed to other firms. The latest U.S. Government Accountability Office (GAO) research on small business tax compliance issues il nx lses relrch ol.3(

\$4.5 trillion of total business income.<sup>12</sup> In contrast to the estimated average total income of \$121 million for larger businesses, \$250,000 is the “estimated average total income across all types of small business.”<sup>13</sup>

Given the foregoing facts regarding small business taxpayers, it is no great surprise that millions of small business owners—mostly individuals running businesses and earning less than \$100,000 each year—are unnecessarily burdened by an antiquated tax code and an IRS that cannot address their questions.<sup>14</sup>

Targeted tax proposals can alleviate some of the burdensome recordkeeping requirements or inequitable treatment small business owners sometimes encounter in complying with the requirements set forth in the Internal Revenue Code. For example, at Kogod, we have done extensive research on how liberalizing tax laws to permit more small businesses to adopt the cash method of accounting, as opposed to being required to adopt the more cumbersome accrual method, will reduce record-keeping and tax compliance costs with a minimal loss of accuracy or tax revenues to the government.<sup>15</sup> We were encouraged to see bipartisan support for expanding the number of businesses eligible to use the cash method as discussed in the U.S. Senate Committee on Finance Business Income Tax Bipartisan Tax Working Group Report.

This Committee has a long history, dating back to its days as select Senate committee, of working on behalf of America’s small businesses on tax issues. Beginning in 1953, the SBC prepared a comprehensive survey of the impact of federal taxes on small businesses, culminating in an annual report to the Senate with key recommendations. Since then, the SBC has held more than 38 hearings over the years on tax-related concerns of small businesses. The work continues. Again, I thank you for the opportunity to testify today for the work you do on behalf of America’s small businesses. I welcome any questions from the Committee or its staff.

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<sup>12</sup> *Id.*

<sup>13</sup> *Id.* at 9.

<sup>14</sup> Lisa Rein, “A standard dejection in the IRS helpline.” *Washington Post*, April 7, 2015.

<sup>15</sup> Cash Method of Accounting: A Simpler Method for Small Firms: *Hearing Before the Subcomm. on Economic Growth, Tax and Capital Access of the House Comm. on Small Business*, 113<sup>th</sup> Cong. (2014) (written testimony of Prof. Donald Williamson, Kogod Eminent Professor of Taxation, Howard S. Dvorkin Faculty Fellow, Executive Director, Kogod Tax Policy Center, American University Kogod School of Business) available at [http://smbiz.house.gov/uploadedfiles/7-10-2014\\_williamson\\_testimony.pdf](http://smbiz.house.gov/uploadedfiles/7-10-2014_williamson_testimony.pdf).