

April 15, 2013

The Honorable Dave Camp
Chairman
Committee on Ways & Means
U.S. House of Representatives
Washington, DC 20515

The Honorable Sander Levin
Ranking Member
Committee on Ways & Means
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Camp and Ranking Member Levin:

We write in support of your committee's efforts to simplify compliance with the federal tax code for America's Main Street businesses. As you noted in your March 12, 2013 overview of the committee's small business discussion draft, tax compliance costs are 65% higher on small businesses than for large businesses, costing owners more than \$18 billion annually. Similarly, a 2004 study released by the SBA Office of Advocacy estimates that small businesses incur an averaged monetized compliance cost per employee of approximately \$4,500, a number that has undoubtedly grown in the last eight years. We believe that a simpler, fairer compliance system for Main Street that allows for investment and innovation without significantly increasing the effective tax rate of our member businesses should be at the heart of any comprehensive tax reform proposal.

The *"Strengthening the Economy and Increasing Wages by Making the Tax Code Simpler and Fairer for America's Small Businesses"* document represents a solid first step towards achieving simplicity and equality in the federal tax code for small businesses. Generally, we support the following "Core Component" concepts outlined in the draft:

Simplifying and Expanding the Use of Cash Accounting for Small Businesses

This proposal is similar to the recommendations of bipartisan tax panels convened during both the George W. Bush¹ and Obama² administrations. Reporting receipts and expenses through cash accounting would have the practical effect of lowering accounting costs, allowing Main Street businesses to reinvest those resources into growing their businesses. Additionally, this simplification could reduce reporting errors to the IRS, improving compliance and presumably closing the tax gap.

Spurring Investment by Providing Permanent Expensing of Investments in Equipment and Property

The ability for Main Street businesses to immediately deduct investments in new equipment and property is imperative. Though the draft proposal suggests making permanent section 179 expensing at pre-stimulus levels, we urge the committee to carefully consider and include the recommendations of both the Bush and Obama tax panels on this subject.

¹ [Simple Fair and Pro Growth: Proposals to Fix Americas Tax System](#), Report of the President's Advisory Panel on

² [The Report on Tax Reform Options: Simplification, Compliance, and Corporate Taxation](#), Report of the President's Economic Recovery Advisory Board (8-2010)

Specifically, both the Bush and Obama tax reform panels recommended allowing unlimited expensing for most asset purchases made by small businesses. Notably, the 2010 panel did not limit this potential expansion by income size, indicating that such a provision would be of benefit to all small businesses. This practice would include immediate expensing for all assets other than land and buildings, which would retain the treatment they receive under current law. In essence, “checkbook accounting” would make the taxable income of small businesses equal to cash receipts minus cash business expenses – including cash outlays for inventories, materials and depreciable property other than buildings.

The implementation of a checkbook accounting system for small businesses would have numerous benefits. As noted by the 2010 tax reform panel:

“Rather than having to keep an additional set of books solely for tax purposes, small businesses could simply use their cash flow records – mainly their bank accounts. Expanding full cash accounting to all but the largest firms could allow millions of small businesses to simplify their tax accounting and lower their compliance costs. Relieving small businesses of the burden of maintaining these records could free up resources for more productive uses and, by simplifying rules, could reduce errors and improve compliance. Taxpayers currently using cash accounting are the vast majority of businesses, but they account for only a small share of overall business activity. Hence, the dollar amounts involved for provisions related to supplies, inventories, and depreciable property are very low, making the current recordkeeping requirements related to such property onerous relative to the revenue gained.” (Chapter 7, pp. 47-48)

Though the 2010 panel indicated that checkbook accounting could reduce the present value of revenues collected, we believe that the improved compliance mechanisms would dramatically reduce error rates and actually close the tax gap as it relates to small business compliance. Further, we believe the cash expensing provisions would score favorably in a dynamic model that accounts for the purchases of supplies, inventory and equipment in generating sales tax revenue within local communities. Indeed, immediate and simplified expensing would encourage robust investment by America’s small entrepreneurs, allowing them to hire new workers, lower the cost of goods by reducing overhead and grow their businesses.

True Parity in Deductibility of Charitable Donations of Inventory Property

Though not contained in the committee’s small business draft, we also recommend the inclusion of reforms that would provide true parity across all business sizes and types regarding the deductibility of charitable donations of inventory property. Specifically, we write in support of H.R. 2592, the “Charitable Contributions Parity and Enhancement Act” as introduced by Rep. Aaron Schock during the 112th Congress, with minor modifications that would enable small businesses across all industries to more robustly support local charitable organizations.

Requests for charitable contributions of inventory from local charities are quite common for local Main Street businesses. Under current law, deductions for charitable contributions of

inventory property are generally limited to a donor's basis in the property. Under Section 170(e)(3) of the Internal Revenue Code, C-corporations are entitled to an enhanced deduction of contributions of inventory for the care of the ill, needy and/or minors. Unfortunately, many small businesses that are organized as S-corporations, sole proprietorships or partnerships do not currently qualify for this enhanced deduction.

To control costs and gain the business efficiencies needed to survive, the purchase of excess inventory by small retailers and service industry businesses has been significantly reduced. To make charitable donations, Main Street businesses need to plan ahead and make careful considerations when purchasing inventory to effectively meet the charitable requests of local groups. They must also weigh the potential consequences of not fulfilling those requests among influential consumers within a local community. Access to the 170(e)(3) deduction for charitable donations of inventory could provide some incentive for small businesses in all industries to contribute and support charities more effectively. Such an expansion would also provide local charities with greater flexibility to use donated property and services to more effectively raise funds to support their mission.

To begin achieving parity in the tax treatment of charitable donations of inventory, Congress should allow S-corporations and other small businesses to qualify for the Section 170(e)(3) deduction as proposed in H.R. 2592 during the 112th Congress. However, to truly provide parity in charitable giving and incentivize the contributions of all businesses, Congress should also expand the potential uses of donated property and services made to charities to include fundraising events and campaigns that benefit the ill, needy and/or minors within a local community.

Thank you for your continued leadership on behalf of our country's small business entrepreneurs. Through an expansion of cash accounting, the application of checkbook accounting principles and providing parity for charitable donations of inventory to all businesses, Congress would most certainly strengthen the national economy by strengthening America's Main Street businesses. As you consider reforms of our federal tax code, we hope that you will continue to acknowledge the benefits that that a simpler, fairer tax code would provide for our national economy, for small businesses in all industries and for local communities.

Sincerely,

American Nursery & Landscape Association
Connecticut Florists Association
Connecticut Nursery & Landscape Association
Craft & Hobby Association
Drycleaning & Laundry Institute
Florida Nursery, Growers & Landscape Association (FNGLA)
Kentucky Florists Association
Jewelers of America
NACS – The Association for Convenience & Fuel Retailing
National Association of College Stores
National Christmas Tree Association
North American Retail Dealers Association

OFA – The Association of Horticulture Professionals
Outdoor Power Equipment Aftermarket Association
Small Business Majority
Society of American Florists
Wisconsin and Upper Michigan Florists Association

cc: Small Business/Pass Through Tax Reform Working Group
Charitable/Exempt Organizations Tax Reform Working Group