

Tax Reform

Americans deserve a simpler, fairer, more pro-growth, permanent tax system

Problem:

On Dec. 22, 2017, President Donald Trump signed into law the *Tax Cuts and Jobs Act* (TCJA/H.R. 1), following passage by the Senate and House—both along party lines. The bill is now in-effect for tax year 2018 and thereafter.

- While the TCJA attempted to simplify the taxation process for many Americans by lowering rates on individuals and businesses and updating the business tax code to jumpstart America's global competitiveness, it failed to include tax simplification, parity between large and small businesses, permanency of the changes, or deficit reduction. Unfortunately, in 2025, most individual and some business tax cuts will revert to pre-reform levels.
- Congress has an opportunity to revisit the tax code—Tax Reform 2.0—to build on some of the success of the TCJA by making much of it permanent, get closer to parity for small entities, and address many remaining issues not included in the 2017 law.
- The House Ways and Means Committee approved a Tax Reform 2.0 bill (H.R. 6760) that would make permanent certain individual income tax cuts and the new Section 199A deduction for certain pass-through business income. These provisions of the 2017 tax reform act are set to expire at the end of 2025. H.R. 6760 also would make permanent certain revenue-raising provisions that were intended to offset part of the cost of the 2017 legislation, including the \$10,000 cap on the federal itemized deduction for state and local taxes and a disallowance for certain pass-through business losses. The Senate has yet to act on the legislation.

Solution:

Tax reform is critically important in the effort to help grow the economy and there are many options available to make improvements on both fronts. As the tax reform debate continues, NSBA believes it is imperative that the U.S. moves towards a simpler, fairer tax system that does not attempt to only tweak one piece of the puzzle but instead is a permanent solution. Specifically, Congress should focus on fixing the national debt, simplifying the tax code for small businesses, creating stability and predictability in our tax laws, and moving toward greater parity in the tax treatment of various business forms.

- **Rate Parity:** Most critical to small-business owners is lowering individual tax rates commensurate with corporate rate cuts. Reducing the marginal tax rates applicable to small business income—with parity among organizations—is among the most important constructive steps that lawmakers can take. NSBA members overwhelmingly believe that any serious tax reform 2.0 proposal must also include further lowering the individual tax rate to support pass-through businesses.
- **Simplicity:** The tax law does very little to simplify the tax code, and actually make it more complex for the more than 83 percent of small businesses that are pass-through entities. Truly simplifying the tax code means it will reduce compliance and administrative costs and make it possible for job creators to reinvest more of their own money in their businesses, by helping small businesses succeed in an increasingly competitive global market.
- **Permanency:** The law sunsets the pass-through deduction after the year 2025, resulting in significant tax hikes on pass-through businesses. NSBA supports making the pass-through business deduction permanent—which H.R. 6760 does—just as the reduction in the C corporation rate to 20 percent is made permanent.
- **National Debt:** With the possibility of more than \$1 trillion being added to the national debt, this is simply not acceptable to members of NSBA, especially since the debt is already on an unsustainable course.

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