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**THE VIEW FROM MAIN STREET**

**Tax Bill Falls Short for Small Business**

**April 2018**

# INTRODUCTION

Late in 2017, mere hours before Congress went into recess, Republicans were popping champagne. Without a single vote from Democrats, their party had finally accomplished with taxes what they could not with healthcare – a legislative win, made possible by the rules of reconciliation rather than regular order. With the Tax Cuts and Jobs Act (TCJA),<sup>1</sup> the GOP passed the largest overhaul of the tax code in decades.

For months leading up to the bill's passage, Republicans and their donors had been pushing hard on the message that its central characteristic – massive tax cuts that will cost the nation \$1.5 trillion<sup>2</sup> – would give small businesses and the middle class long-sought tax relief, creating jobs and economic growth.

In practice, the GOP's chief accomplishment with this tax law is to accelerate US income inequality by funneling the vast majority of the law's benefits directly to the wealthiest households and large corporations, which received trillions from a dramatic and permanent cut to their tax rate from 35 percent to 21 percent.<sup>3</sup> In order to offset the cost of those tax giveaways to their donors and the denizens of Wall Street, Republican legislators sacrificed those they claimed to champion. In the coming years, small businesses and low- and middle-income taxpayers will be the ones who bear the brunt of a law that redistributes wealth upwards.

This report is an initial investigation into how small business owners are being impacted by the new tax code, and how well it meshes with their priorities for building local economies and creating jobs. In the climate of uncertainty created by a hastily written tax bill, Main Street Alliance reached out to thousands of small business owners across the country to start to piece together the pragmatic and policy implications of the law for Main Street, both now and in the future.

## Changes to Pass-Through Income

*The most significant change in the law that directly impacts small businesses is the creation of a new 20 percent deduction for owners of "pass-through" businesses such as S-corps, partnerships, and LLCs. The income from these businesses "passes through" to the business owners and is taxed at the individual tax rates of the owners. A wide variety of businesses are structured as pass-through entities, ranging from mom-and-pop shops to law firms to hedge funds.*

*While this provision has been lauded as a boon for small business, in practice, it's another major tax cut for very wealthy individuals. Nationally, the median income of a typical business owner is approximately \$50,000.<sup>4</sup> These businesses are the bodegas, auto mechanics, family restaurants, and small farmers who would have to pay more to an accountant to figure out the new law than they would reap in tax cuts, or who are seeing increases in health insurance premiums that outweigh any small tax cut they might receive.*

*Overall, however, income from pass-through businesses skews heavily to the very wealthy, with 70 percent of pass-through income accruing to the top 1 percent of income earners.<sup>5</sup> Wealthy business owners stand to benefit far more from this new deduction than real small business owners.*

*Republicans claim they built guardrails into the law that keep the investment bankers and Wall Street lawyers from using the tax break once their income reaches a certain level. But savvy, highly-paid accountants are already figuring out how to game the system and restructure their clients' businesses to claim the maximum benefit from the new law,<sup>6</sup> while real small businesses are left uncertain and struggling to understand the changes.*

*Moreover, the tax law gives owners of real estate holdings an easy way around the guardrail, effectively creating a new tax loophole for large landlords and real estate developers, people like President Trump.<sup>7</sup> President Trump himself could see more than \$11 million in tax breaks from the pass-through deduction.<sup>8</sup>*

## KEY FINDINGS

Through working with thousands of small business owners nationwide, Main Street Alliance found:

**1 The total impacts of the tax law on small businesses' bottom lines far outweigh the nominal tax cuts most anticipate receiving.** *[see Section 1: Small Business Impacts]*

Republicans have touted their tax law as a driver of economic growth and a win for American businesses, but those who stand to benefit most from the law are those with the most to begin with. Meanwhile, small business owners and the rest of the middle class are being saddled with higher healthcare premiums and looming cuts to other essential services that far offset the nominal cuts average income earners are seeing from the tax law. Ultimately, small businesses are likely to see a decline in consumer demand as the full impacts of the tax law are realized.

**2 The view from Main Street is very different than the view from Wall Street. The majority of small business owners surveyed say they need more customers, not tax cuts, in order to hire and expand, calling for stability and strong public investment as the way to sustainably grow a business.** *[see Section 2: The View from Main Street]*

In conversations with nearly 1,800 small business owners across the country, it became clear that few business owners make business

decisions based on tax cuts. On the contrary, they cited the following as a few of the drivers of growth: consumer demand; high-quality, stable, affordable healthcare; certainty in the market; and infrastructure spending that creates a virtuous cycle in local economies.

**3 To ensure an equitable economy that works for small businesses, large corporations and wealthy individuals must also pay their fair share of taxes. This means we must close corporate tax loopholes, not skew the tax code even more in their favor.** *[see Section 3: Real Support for Small Business]*

As tax policies in Kansas have demonstrated, tax cuts starve, not sustain, local economies over time.<sup>9</sup> Small businesses prioritize strong public investment that spurs the development of local economies, and the first steps in generating more revenue is closing corporate loopholes and penalizing offshoring.

The sections that follow address each of these key points by highlighting real life experiences of Main Street business owners.



Makini Howell, owner of Plum Restaurants in Seattle, Washington

# SMALL BUSINESS IMPACTS



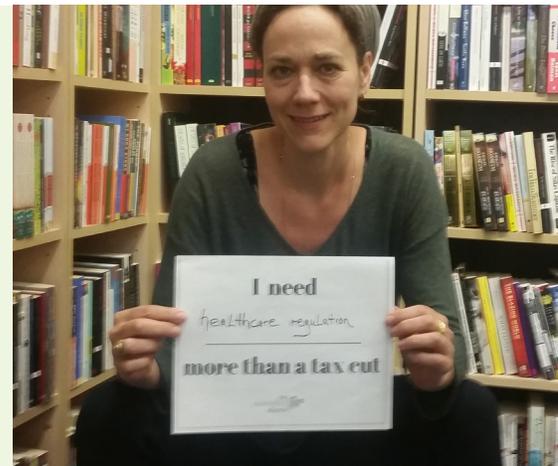
## *How Will The Trump-Republican Tax Law Impact Small Business Owners?*

**1. Small business owners will struggle to afford healthcare costs in an unstable market, while 13 million Americans will lose access to healthcare and health insurance premiums will increase by an average of 10 percent.<sup>10</sup>**

The repeal of the individual mandate will cause healthcare costs to increase for small business owners already struggling to afford insurance for themselves or their employees. Small businesses fund their expenditures from month to month, and need predictability to make business decisions. Erratic premium increases undermine their ability to project expenses. Additionally, as healthcare costs increase for millions of Americans, customers will have less money to spend at local businesses.

**“ My bookstore is already dealing with instability with the ever-growing competition with online book sellers. Now with rapid and unpredictable healthcare cost increases, it makes it really hard to operate my shop. Just this year, we’ve had a 20 percent increase in employee healthcare costs. This pre-ACA level increase is not sustainable for me or my employees. ”**

- Dorothea von Moltke, co-owner of Labyrinth Books, Princeton, NJ



**“ Access to healthcare through the ACA, and programs like Medicare and Medicaid, have enabled entrepreneurs like me to have the stability to venture out on our own. Strong public programs facilitate innovation and business development. Cutting trillions of dollars from critical public programs to finance tax cuts for the rich makes it harder for entrepreneurs to go out on their own. ”**

- Nate Barr, owner of Zootility Co. in Portland, ME

## 2. Tax breaks for the wealthy are unlikely to increase consumer demand on Main Street.

In order to prosper and grow, the single most important thing small business owners consistently say they need is more customers, and it's unlikely that this tax law will spur consumer spending on Main Street.

Studies have shown that putting money into the hands of working families does more to stimulate local economic growth than putting more money into the hands of the wealthy. This is because working families are especially likely to spend increased earnings in their communities. Each dollar going to working families represents a larger share of their total income as compared to those with higher incomes.<sup>11</sup>

However, the majority of the tax breaks under the Republican plan accrue to the very wealthy.<sup>12</sup> The non-partisan Tax Policy Center estimates that millionaires will receive an average tax cut of nearly \$70,000 this year—more than 100 times the amount of the average tax cut for the bottom 80 percent of income earners (families earning less than \$150,000 per year).<sup>13</sup> According to a study by the Federal Reserve Bank of Chicago, increasing disposable income for working families through policies like raising the minimum wage would stimulate local economic growth more than income increases to wealthy households.<sup>14</sup>



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***It makes me angry when Republicans say that tax cuts for the wealthy and big business will create jobs and help small businesses like mine. That's just not true. I don't have any millionaires coming in to buy sandwiches at my deli – the majority of my customers earn between \$40,000 to \$80,000. The Republican tax plan will hurt the hard-working middle class families that make my customer base, causing demand for my business to decrease.***”

- Tara Kleca, owner of Lighthouse Market in Tacoma, WA

“ ***The negative domino effect of this tax law is so patently obvious. We have again raided the treasury and cut basic, necessary services just so we can give our hard-earned tax dollars to corporations that need it the least. If we keep pretending that tax breaks are a substitute for true demand, my customers will have less flexibility with their spending, which will lower demand for our services. Tax breaks do not create jobs. Demand creates jobs.***”

- Ian Levitt, owner of Studio Americana in Minneapolis, MN





### **3. The tax law will not enable small business owners to create new jobs or expand their businesses.**

Evidence shows that tax cuts do not lead to job creation or business growth. In 2012, Kansas enacted aggressive tax cuts, including exempting pass-through income from state income taxes. Far from growth or job creation, the results were so disastrous that lawmakers were forced to repeal the tax cuts in 2017.<sup>15</sup>

Businesses hire more people only when there is enough demand to warrant more employees. This is underscored by a recent poll by Businesses for Responsible Tax Reform, which found that 69 percent of small business owners do not plan on hiring a new employee because of the new tax law, and 59 percent do not plan to give current employees raises.<sup>16</sup>

Main Street's ability to create jobs is particularly important to economic growth because small businesses employ nearly 50 percent of the country's private sector workforce.<sup>17</sup> A recent report by the Small Business Administration found that small businesses, not large companies, led the way out of the Great Recession by creating most of America's jobs. Since then, small businesses have created 2 out of 3 private sectors jobs.<sup>18</sup>



**“ Tax cuts to the top don't help the middle. We've seen this numerous times -- trickle-down economics doesn't work. The GOP tax cuts won't provide a boost to small businesses or create jobs. Above all else, small businesses need more customers. And that requires a government that invests in our communities and local economies to boost the standard of living for everyone. The Republican tax plan doesn't do that in any way. ”**

- Alan Haghighi, co-owner, FruitCraft, San Diego, CA

**“ I don't make business decisions based on tax cuts. I don't operate like that. My business decisions are based on customer demand. When demand increases, I expand business operations and hire more employees. If vital government programs are cut, middle-class families in Seattle have less disposable income to buy an ice cream cone to treat their families and kids, and demand at my ice cream stores decreases. That's not good for anyone. ”**

- Molly Moon, owner of Molly Moon's Homemade Ice Cream in Seattle, WA



#### 4. The GOP tax law further skews the federal tax code to benefit large corporations, exacerbating their unfair advantage over small business.

While large corporations are reporting record profits, tax revenue from corporate income has drastically decreased since 1950.<sup>19</sup> That means that even while corporations are benefiting from public services, they're also failing to pay their fair share in taxes, which shifts their tax responsibility onto small businesses and other taxpayers. Unimaginably, the new tax law gives the likes of Walmart, Apple, and Exxon \$1.4 trillion in tax cuts<sup>20</sup>—tilting the playing field even further in favor of big businesses who have been dodging paying their fair share for decades. The majority of the tax cut windfall is not being spent giving employees permanent raises or more benefits. Instead, corporations are using the money for stock buybacks that pad the pockets of investors. Wall Street has announced \$171 billion of stock buybacks so far this year, more than double the amount over the same period last year.<sup>21</sup>

***“While Republicans are selling their plan as benefiting small business, it is really just another corporate tax break. Corporations like AT&T and Apple are using their trillion dollar tax cut to pad the pockets of their wealthy shareholders and increase what CEOs make. West Virginia continues to have one of the highest poverty rates in the nation, and small businesses and average people will get little or nothing from these tax changes — except the reductions in services that come from handing out over one trillion dollars in corporate tax giveaways.”***

- Martha Ehlman, owner of Tenfold Fair Trade Collection, Harper's Ferry, WV



***“The Republican tax plan is a huge giveaway to the rich. The estate tax does not impact me or any other small farmers I know; we don't make nearly enough to benefit from getting rid of the estate tax. Not only that, a lower corporate tax rate gives more power and profits to the big corporations who are destroying small family farms. It provides large corporations with an unfair edge over small farmers and creates a rigged economy where small farmers are set up to fail.”***

- James Berge, owner/farmer of Berge Farms a 144-year-old, 153-acre farm in Kensett, IA

## 5. The GOP tax law is breeding uncertainty and confusion across Main Street.

The tax changes add new, unnecessary levels of complexity to the tax code that only accountants can untangle. The average Main Street small business owner does not have a tax accountant on retainer, and many cannot afford to consult or employ an accountant to fully understand the implications of the new tax law, nevermind restructuring their business to take full advantage of the new changes. For many small businesses, the cost of an accountant alone would offset any marginal decrease in tax liability. With armies of lawyers and accountants on retainer, big corporations don't have the same problem.



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*The new tax law is so confusing that tax accountants and lawyers are the only ones who are going to grow their business and hire more employees as a result of it. Even then, there's so much uncertainty in the law that it's really hard to find an accountant who can give you a simple yes or no answer about whether you should restructure your small business into an S-corp or an LLC.*

*Our law firm sits in a very privileged position when it comes to this tax law because we are attorneys who advise small businesses. We decided to restructure our business, and we had to spend a great deal of money to figure out the details with our accountant. That means that, in the first year at least, what we will save in taxes will be pretty much outweighed by what we spent to figure it out. I would double what we spent for any other small businesses because they will need to talk to their attorneys as well.*

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- Davis Senseman, founder of Davis Law Office in Minneapolis, MN

## 6. The tax law incentivizes offshoring of domestic jobs by giving tax preferences to foreign profits earned abroad compared to domestic and small business earnings.

Small businesses create jobs and spur economic activity right here in the US. Main Street businesses are the backbone of their communities. Not only do they rely on their neighbors as their customers, many have deep roots in their communities and would never leave them for a lower tax rate.

But, by creating a lower corporate tax rate on foreign profits compared to domestic profits, this tax law incentivizes multinational companies to shift profits, investments and jobs out of the US. This results in lost tax revenue, needed for critical economy-boosting investments, but also destabilizes communities by offshoring jobs.



**“Multinational corporations are paying far below their fair share through aggressive tax avoidance. They set up shell companies in countries with lax tax rules and shift profits into tax havens, thereby avoiding US taxes. Now, thanks to the GOP tax plan, large multinationals won’t even have to set up shell companies. Tax avoidance is baked into the tax code and incentivized. A lower tax rate on foreign profits incentivizes companies to shift profits, investments and jobs offshore to get the lower rate.”**

- Kelly Conklin, owner of Foley-Waite Associates in Kenilworth, NJ

**“The creation of overseas subsidiaries has long enabled corporations to engage in offshore tax dodging, regardless of the fact that these subsidiaries have no retail operations and have few, if any employees. The ‘Panama Papers’ leak exposed international offshoring and tax avoidance at a scale few believed existed and with political figures at the highest levels of government. Some of the same institutions involved in this scandal were also major players in the financial collapse of 2008. Congress should have reformed the tax code so that multinational corporations would be required to pay taxes on all overseas earnings, but instead they capitulated to their donors and effectively eliminated taxes on future offshore profits.”**

- Matt Birong, owner of 3 Squares Cafe in Vergennes, VT



## 7. Tax breaks for the wealthy and large corporations will be paid for by cutting trillions of dollars from critical services that small businesses and our communities need.<sup>22</sup>

Deep cuts to Medicare, Medicaid, Social Security, education, infrastructure, as well as food, rental and energy assistance, and other critical public programs would cause basic living expenses to skyrocket and destabilize local economies. As families are forced to pay more for vital services, they will have less money to spend at local businesses, devastating Main Streets across the country.

Crumbling and outdated infrastructure has caused small business owners to experience increased transportation costs as well as a variety of health and safety issues. The lack of broadband internet connectivity in many rural communities has hampered business growth and development. Robust public investment in sustainable and resilient infrastructure would help increase business efficiency, widen the consumer base, and ensure safe and healthy communities.

Furthermore, a lack of adequate investment in the public education system has led to shrinking school budgets, increased class sizes, shortened school years, and the loss of many school programs. Small business owners rely on a strong public school system to ensure a well-educated, prepared workforce for the future.

**President Trump has claimed that eliminating the estate tax will help small business owners and farmers. Well, I own a small business and a farm and let me assure you this won't help me or any Maine small business owners or farmers that I know. In fact, according to the Center on Budget and Policy Priorities, only an average of 20 ultra-wealthy Maine estates pay the tax each year. I'm not one of them. And yet, nationally, the tax generates over \$260 billion a year and helps pay for things like Medicaid, Medicare, Social Security, and Pell Grants, which Eastern Mainers need. These programs are what Maine's economy – and the small business owners that support it – need, not tax cuts for rich people.**

- Amy Grant, owner of Good Karma Farm & Carrabassett Soap Company in Belfast, ME



**For my small business to be successful, I need to be able to hire and retain skilled employees. A big part of that is ensuring that Oregon has a high-quality public education system. As a business person, I see clearly that when you invest in kids and education, you get an amazing return through engaged citizens and dedicated employees. But, Oregon kids aren't getting the education they deserve because our education system is vastly underfunded. Large corporations aren't paying their fair share in taxes, which has led to a revenue shortfall. Cutting taxes even further for big corporations will only deepen Oregon's deficit and education crisis, making it harder for small businesses like mine to find qualified employees and run successful businesses.**

- Rob Cohen, owner of Falling Sky Brewing in Eugene, OR



## THE VIEW FROM MAIN STREET

**M**ain Street Alliance talked with nearly 1,800 small business owners from across the country to find out more about their thoughts on the economy. When asked what they need most to create jobs and strengthen the economy, more than half of the business owners who responded said above all, they need more customers, not lower taxes or fewer regulations. Fewer than 1 out of 3 of the respondents called for lower taxes. In fact, when asked specifically about corporate taxes, almost 3 out of 4 business owners surveyed felt that large corporations are currently paying less than their fair share of taxes.

However, as small business owners call for increased investment and tax fairness, President Trump and Republicans in Congress continue to celebrate their tax giveaway – gutting critical social programs to give massive tax breaks to big businesses and the very wealthy.

These stories further highlight the real impacts of these regressive policies on small businesses – here's the view from Main Street:

### Jim Houser, co-owner of Hawthorne Auto in Portland, Oregon

Over the last 35 years of running my auto shop, I've learned a thing or two about what it takes to build a strong business and create good jobs in my community. Since my wife and I opened our shop in 1983, we've gone through our ups and downs, but we've always put our employees and our customers first. We know that without our dedicated employees, we couldn't take care of our loyal customers, and without our customers, we wouldn't have a business. We depend on the stability of our local economy to drive our business. When our customers have more money in their pockets, they can afford to maintain and fix their cars in our shop. For us to grow and create more jobs, we need more customers.

No matter how they spin it, when you kick the tires of the Republican Tax Law, it's clear that it is not going to help us grow our business, hire more technicians, or give raises to our current techs. The single most important thing we need to grow our business is more customers. But the Republican Tax Law does nothing to spur consumer demand on at our shop.

The overwhelming majority of the tax law goes to millionaires. That money isn't going to get spent in my shop, it's going to get invested on Wall Street. My customers and my community need real public investment. We need to stop having to choose between paying the rent, going to the doctor or getting that new set of tires.



Hawthorne Auto Clinic is a full-service auto clinic that has been in business for 35 years and employs 11 people.

## Maurice Rahming, co-owner of O'Neill Construction Group in Portland, Oregon

At O'Neill, we strive to create quality, living-wage careers in construction for all our employees, especially people of color who have been traditionally shut out of careers in construction.

A large part of our business comes from public contracts. But the recent tax changes reduce the state and local tax (SALT) deductions, putting pressure on public budgets, which are already stretched thin. Not only does this mean fewer public construction projects and less business for our company, but at a time when our infrastructure is in dire need of repair, this harms the health and safety of my community. In Oregon, and all across the country, we have crumbling and decrepit infrastructure like the Marquam Bridge. We need more public investments in construction and infrastructure, not less.

If that's not bad enough, the rollbacks to the SALT deduction also make owning a home more expensive. This will lead to fewer new home purchases and renovation projects, depressing the housing market and hurting small contractors like us, and our crews of electricians, carpenters, painters, and masons.



O'Neill Construction Group is a general contracting company that has been in business for nearly 20 years and employs over 50 people.

## Nancy Sobin, owner of Professional Paperwork Services in Princeton, New Jersey



I started my business three years ago. At the time, because of the ACA, I was able to get a solid healthcare plan through the marketplace for about \$400 a month with subsidies. That was quality, affordable insurance – I didn't have high deductible, the co-pays were manageable, and I could purchase prescription drugs at a reasonable price.

This year, my business grew enough that I no longer qualify for a subsidy. That's understandable. But, in addition to losing the subsidy – which I may have been able to absorb – the premium shot up 40 percent from just 2017 to 2018 on the same healthcare plan I had before. All of a sudden, if I wanted to keep my insurance, I would have had to pay \$1,025 a month. It was totally out of reach.

I debated going without health insurance altogether in 2018, but decided to settle on a plan that is \$800 a month for bare-bones, emergency coverage only.

Clearly, Republicans didn't understand basic math when they repealed the ACA's individual mandate provision. Healthy people are needed in the insurance pool to make the system work, or premiums increase. The tax law was another attempt by Republicans to sabotage the ACA, and now I'm living with the consequences.

Professional Paperwork Services offers expertise and assistance with financial management, bill-paying, and paperwork.

## Deborah Field, co-owner of Paperjam Press PDX in Portland, Oregon



The GOP tax plan doesn't help me or many other small businesses. I used to be a corporate tax accountant, so I am very comfortable with numbers. I calculated my tax based on the new changes, and I end up paying more than last year. I wanted to see what this would mean for some of my neighboring businesses, so I went out and talked to them. They didn't even pause, they all laughed and said this isn't for us -- this tax plan is a giveaway to the biggest corporations who aren't paying their fair share in taxes already.

Too many big corporations take advantage of all America has to offer, but then refuse to pay their fair share in taxes. Corporate loopholes are already so large that some multinational corporations pay less in taxes than I do. There is something deeply wrong with that.

If Republicans really want to focus on supporting small businesses like mine, they should invest in policies and programs that expand access to credit and capital for small businesses. That would really help small businesses grow – trillion dollar tax breaks to large corporations will not.

Paperjam Press PDX is a boutique stationery and printing company employing 3 people.

## ReShonda Young, owner of Popcorn Heaven in Waterloo, Iowa

I've run a logistics company, a retail shop, and have turned a single popcorn store into a franchise in five states. I've learned a lot as a business owner over the years, but across industries, there's one thing in common: strong consumer demand drives my business decisions and my business growth.

The Trump tax cuts make me worried more than anything – worried about customer demand in the future. The deep cuts to health care, education, and food and rental assistance that Republicans are proposing to pay for tax breaks for the wealthy will end up increasing basic expenses for my customers.

And that means working families will have to make tough spending decisions. For some people, that will mean choosing between putting food on the table or keeping the heating on during cold Iowa winters. For others, it will mean fewer dinners out, and fewer extras like gourmet popcorn. Popcorn is a niche good. If people can't afford basic living expenses, they definitely won't be buying any popcorn.

And yet, Iowa Republicans are looking to double down on the deceptive federal law with a state law of their own. Senate Republicans have proposed \$1 billion in annual corporate and individual tax breaks. This would drastically reduce the amount of public revenue the state could collect, forcing even deeper cuts to government programs and services.<sup>23</sup>

The Republican tax giveaway has set the economy up for a downward spiral, and Iowa Republicans are looking to put the nail in the coffin.



Popcorn Heaven is headquartered in Waterloo, IA with locations in Des Moines, IA, Kansas City, MO, Peoria, IL, Charlotte, NC and soon in Waldorf, MD.

## David Borris, co-owner of Hel's Kitchen in Chicago, Illinois

My wife and I opened a homemade food store in 1985, and over the years have expanded it into a full-service catering company with 33 full-time employees and 80 part-time and seasonal workers. We haven't grown because of tax cuts, we've grown because of consumer demand. It's simple: the more customers we have, the busier we are, and the more staff we need to deliver. We make business decisions based on experience and evidence, and that's what small businesses like mine need from our federal government – evidence-based policies that keep overall consumer demand strong.

The health of my business is tied to a thriving economy that has money circulating in a cycle of rising wages, consumer demand, and job creation. Tax breaks for wealthy Republican donors and big corporations – like those in the GOP tax scam – do not put money in the hands of my customers. We need investments in public programs like Medicaid, Medicare, Social Security, education, and infrastructure.

When people in my neighborhood don't have enough to keep up with the basics – like paying bills, purchasing food and school supplies, and making car repairs – then they definitely aren't calling us to cater a party. The entire local economy becomes unstable. That's bad for small business, and bad for the economy as a whole.



Hel's Kitchen is a full service catering company serving Chicagoland.

## Gale White, owner of Lubec Brewing Company in Lubec, Maine



It sickens me to see a company like General Electric make a huge profit, but pay very little in taxes. What Congress should do is tighten loopholes so big companies like GE pay their fair share. With huge tax cuts for the wealthy and big business, I fear we won't have the federal revenue needed to fix our nation's critical infrastructure.

At my brewery and restaurant, I use only Maine-grown hops and grain for my beer, but I can't get them delivered because the roads are so bad. I have to drive to Bangor myself every month to pick them up from my suppliers. On my 88-mile drive from Lubec to Bangor, the road was down to one lane in eight places due to potholes!

Broadband is another critical infrastructure issue – internet in Washington County is spotty and slow at best. In the summer, when we have an influx of tourists who want access, our systems shut down entirely. Not only does this make it impossible to run my business, but it's a missed opportunity for economic growth. If our elected officials really want to help small businesses and Main Streets like mine, they'd make sure the wealthy and big businesses paid their fair share of taxes to keep our communities and infrastructure strong.

Lubec Brewing Company is a micro brewery and tap room at the easternmost point in the US offering raw, unfiltered beers and food made with organic, local ingredients.

# REAL SUPPORT FOR SMALL BUSINESS

## What Do Small Business Owners Need In A Tax Plan?

In order to create a more equitable economy with broadly shared prosperity on Main Streets across the country, it's imperative to reform the tax and transfer system, and ensure wealthy corporations and individuals pay their fair share of taxes by closing corporate tax loopholes and creating a more balanced income tax structure.

### 1. Eliminate the tax incentives given to US multinationals to shift profits and jobs overseas.

The TCJA enables multinational corporations to receive a lower tax rate on foreign profits over domestic and small business profits. Instead of having to pay the 21 percent rate owed on domestic earnings, multinational companies will only have to pay an effective tax rate between zero and 10.5 percent on their offshore earnings, with the rate decreasing as their offshore operations increase. The nonpartisan Institute for Taxation and Economic Policy estimates that many companies will end up paying nothing in US taxes on their foreign earnings.<sup>24</sup>

This incentivizes multinational companies to artificially shift profits offshore, or actually shift investments and jobs offshore to take advantage of a lower tax rate. It gives corporations with international operations and expensive tax advisors an unfair tax advantage over domestic and small businesses. Real tax reform would require multinational companies to pay the same tax rate on their foreign earnings as they do on their domestic earnings, ensuring they abide by the same rules as domestic and small businesses.

### 2. Prioritize targeted, Main Street economic development efforts over corporate welfare.

Economic development subsidies often provide tax breaks for large corporations to relocate within the US, despite little evidence that these

subsidies bring sustainable economic growth to our communities. An alternative is prioritizing smaller, Main Street-scale economic development efforts. This includes tax incentives to encourage the growth and development of small businesses, and targeted technical assistance and mentorship programs throughout the stages of business development.

Additionally, economic development subsidies that go to large corporations should have stringent job creation requirements, including requirements that jobs be newly created (not moved from a nearby region) and offer family-sustaining wages and benefits. They should also include strong claw back provisions so that corporations are held accountable to our communities for benefiting from our public tax dollars.

### 3. Create an equitable tax structure that guarantees sustainable revenue streams to fund robust, transformative public investments in health care, education, infrastructure, child care and other vital programs that small business owners and our communities need.

CEOs often use profits to pay off shareholders and increase their own bonuses instead of increasing worker salaries or investing to expand business operations. In order to reverse this trend, we should raise tax rates on high-income individuals. This includes: creating additional tax brackets for millionaires and billionaires; converting all deductions to tax credits and limiting the use of credits; and raising taxes on capital gains, carried interest, and stock dividends, which are taxed at much lower rates than earned income. Additionally, we should raise the estate tax, which prevents wealthy families from escaping tax through inheritance.



## CONCLUSION

Small business owners are problem solvers by necessity. The success of their businesses often depends on their ability to navigate the inevitable ups and downs in the economy. Even the most creative entrepreneur, however, is not equipped to withstand large-scale policy changes that stack the deck against them.

When he signed the Tax Cuts and Jobs Act, President Trump made economic inequality the law of the land. He and the GOP made a trade-off when they voted to cut trillions in taxes for the rich: the next generation of public school students will pay for Apple's tax cuts. Our grandparents on Medicare will pay for Walmart's tax cuts. Sick children on Medicaid will pay for the Koch brothers' tax cut, and small business owners will pay a far greater share in tax than Amazon ever will.

Over time, starving the Treasury of tax revenue will be felt on Main Street. People are already paying more for increases in health care premiums than they're getting back in tax cuts. While the rest of the world speeds ahead on broadband and bullet trains, our aging infrastructure is crumbling, costing business owners and consumers more for everyday necessities like shipping and internet, and making it harder to do business in rural areas. Though corporations may grow richer, the increased cost of living will cause the average taxpayer to become poorer, diminishing their spending power and eroding local economies.

If lawmakers are the champions of small business they claim to be, they must ensure that our tax code prioritizes strong public investment over corporate profits. For the vast majority of small business owners, temporarily paying slightly less in taxes has little benefit when compared with a good, affordable healthcare system; sufficient retirement funds; and high-quality jobs that sustain a strong customer base.

Moreover, in order for small businesses to have a better shot at competing with large corporations with innumerable advantages, loopholes that enable tax evasion and incentivize offshoring have to be eliminated. Congress has its work cut out for itself to fix these significant challenges.



***These big business tax cuts are paid for by cutting public services that benefit my business and my community. Atlantic County can't afford these cuts. Our transportation and telecommunications infrastructure need an upgrade. Many of our residents rely on programs like Medicaid for health care. We need to invest in education and workforce training to attract more companies to the area. My small business can only survive and thrive if we invest in our community.***

- Mike Price, owner of Price Communications in Pleasantville, NJ



***The rural economy is struggling in Iowa and across the nation, and we won't benefit from the Republican tax law. What we need is access to affordable healthcare, well-funded schools in our communities, and maintained farm to market roads.***

- Chris Petersen, Family Farmer in Clear Lake, IA

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