AMERICANS FOR TaxFairness

SIX REASONS TO SUPPORT SEN. WYDEN'S SMALL BUSINESS TAX FAIRNESS ACT

Sen. Ron Wyden (D-OR) wants to close a gaping tax loophole that lets wealthy noncorporate business owners dodge tens of billions of dollars in taxes a year. It was misleadingly sold as a Main Street business tax cut when enacted in 2017. Wyden would only let business owners making less than $400,000 a year get the tax cut, which allows owners to subtract 20% of their business income before figuring their taxes. Business owners making over $400,000, who often game the system to benefit from the break, would no longer qualify.

- **Sen. Wyden's bill would raise at least $100 billion, money that can be used to support working families and true small businesses.** The real way to boost Main Street businesses is to put more money in customer pockets through working-family tax credits and strengthen communities through safer streets, better transit, broader internet service, better-performing schools, more affordable healthcare and other public investments. Disqualifying the wealthy from using this tax break will raise lots of revenue to do just that. Wyden's plan is similar but not identical to a Biden campaign plan that the Tax Policy Center estimated would raise $143 billion.

- **Real small businesses would still qualify for the tax break.** Small businesses like corner groceries, small plumbing contractors, start-up web designers and other similarly sized "pass-through" businesses would still benefit from the 20% income deduction. But firms making millions or even billions of dollars a year—like hedge funds and real-estate partnerships—would be excluded.

- **Most of the new taxes collected by limiting the break will come from millionaires and other members of the richest 1%.** Business owners in the highest-income 1% will get over three-fifths (61%) of the tax savings from the pass-through income deduction in 2024. Business owners with income of over $1 million a year from all sources got 44% of the tax cut in 2018 rising to more than half (52%) in 2024, per the Joint Committee on Taxation.

- **It would end the ability of rich business owners to benefit from the tax break by gaming the system.** Many wealthy owners of pass-through businesses disguise what is really employment income—which doesn't qualify for the tax break—as business profits in order to reap the benefits of the 20% deduction. Rich owners are best able to play these tricks because they can afford high-priced legal and accounting advice. Misreporting income by rich business owners is the biggest form of illegal tax avoidance.

- **It would vastly simplify the law, saving the real small business owners who still qualify a lot of time, money and hassle.** The 20% pass-through deduction is wildly complicated—weighed down by multiple arbitrary restrictions and exceptions. Sen. Wyden's reform would vastly simplify the provision, making it easier to use for those who qualify and harder for those who don't.

- **The public strongly supports ending this tax break.** In a May 2021 survey by ALG Research and Hart Research (Q. 28p), by a margin of 62% to 23% voters supported the following proposal: "For business owners making more than $400,000 a year, phase out the tax break that lets them take a 20% deduction to reduce their income taxes."