

SMALL BUSINESS TAX CUT ACT OF 2012

The best way to boost economic growth and get people back to work is through small business growth. Over the past 17 years, small businesses with fewer than 500 employees have generated 65% of the new jobs in this country. As the U.S. Small Business Administration Office of Advocacy shows, small businesses represent 99.9% of the 27.5 million businesses in America and employ about half of all private sector employees. Yet, small businesses can be subject to tax rates that siphon away one-third or more of their income. The Small Business Tax Cut Act will allow small businesses to take a tax deduction equal to 20% of their active business income. This will immediately free up funds for small businesses to retain and hire new employees.

Current Tax Burdens On Small Businesses:

Current marginal tax rates mean that small businesses are faced with enormous burdens that are sapping capital, resources and time. Irrespective of whether they pay taxes at the corporate or individual level, small businesses can face up to a 35% federal tax rate. Further, small businesses spend three times more per employee on tax compliance than larger businesses do. Once Japan implements a lower corporate tax rate, many small C corporations will pay the highest corporate tax rate among the major economies of the world. Additionally, the individual tax rates that apply to small pass-through businesses (e.g. S corporations and partnerships) are scheduled to increase significantly in 2013 under the President's Budget Proposal.

How The Small Business Tax Cut Act Works:

Our 20% small business tax cut goes straight to the bottom line so small business owners can retain more capital, invest in their businesses and create more jobs. Small businesses would be allowed to deduct 20% of their income from taxes irrespective of how they are organized, up to 50% of their W-2 wages (in some cases distributions made to partners may be treated as W-2 wages for these purposes). So, whether you are organized as a corporation or you are one of the 75% of small businesses that operate as a pass-through, you will benefit from this new deduction.

For simplicity, consider the example of a small business that under current law would pay a 35% federal tax on \$100 of income, resulting in a \$35 tax bill. Under the House Republican proposal, the small business would be able to deduct 20% of its income from tax (20% of \$100 = \$20), subject to the 50% W-2 wage limitation. The small business would then pay the same 35% tax on the remaining \$80, resulting in a \$28 tax bill. Under the House Republican proposal, the small business immediately saved \$7 in federal taxes.

Restrictions:

Eligible small businesses must have fewer than 500 employees. The 50% W-2 wage limitation is similar to the limitation under the domestic manufacturing deduction (section 199).

To learn more about the Small Business Tax Cut and how it can help your state, visit:
majorityleader.gov/SmallBIZ