



June 05, 2023

Chair Ron Wyden and Ben Chair Cardin
United States Senate
Washington, D.C. 20510

Re: Tackling Tax Complexity: the Small Business Perspective

Dear Chair Wyden, Chair Cardin, and members of the Senate Committee on Finance and Senate Committee on Small Business and Entrepreneurship:

Thank you for the opportunity to provide written testimony and participate in the Tackling Tax Complexity roundtable. My name is Alicia Chapman, and I am the owner and CEO of Willamette Technical Fabricators, based in Portland, Oregon.

My company is certified by the Small Business Administration (SBA) and in our home states of Oregon and Washington as an economically disadvantaged woman- and minority-owned small business. We specialize in custom complex metal manufacturing, focused on transportation and clean energy infrastructure such as bridges and hydropower dams. We have grown rapidly and provided high-skill, high-demand, family-wage jobs to over 40 employees, avoiding layoffs through the pandemic and more recent recession concerns. In spite of our success, we are currently at a crossroads, in large part due to excessive delays within the IRS.

Willamette Technical Fabricators has conducted substantial research and development (R&D) throughout our startup years, and we were recently awarded a Small Business Innovation Research (SBIR) grant from the Department of Energy to develop proprietary robotic welding technology that will improve American competitiveness and help our nation become more resilient and energy-independent. Unfortunately we have been unable to finalize our 2022 business tax return and were forced to file for an extension while we await updated IRS guidance on capitalization and amortization of Section 174 for research and experimental expenditures. We are already struggling with the updated requirement for the first time in 70 years to amortize these investments over time, instead of being able to immediately deduct our R&D expenses. This is a stark contrast to the 200% R&D deduction provided to our Chinese competitors by their own government. But while we anxiously await the passage of legislation that would address this gap, the delayed guidance is holding up hundreds of thousands of dollars in tax credits and refunds that we need to continue to innovate and invest in workforce development.

In addition to R&D credits, my business qualifies for over \$125,000 in Employee Retention Credits (ERC) for maintaining and expanding our workforce through the pandemic. We have been waiting on that payroll tax refund for over eight months now. When we've been able to get through to someone at the IRS, which is rare, they have informed us that processing of ERC refunds is taking up to 160 days, unless there are any delays, in which case it could take much longer. Unfortunately no one has been able to clarify what might constitute a delay, or offered any suggestions for steps we could take to help expedite the process. With so many taxpayers, especially small businesses, hoping to take advantage of the ERC program, our accountants have told me that they have been seeing long wait and processing periods for all of their clients, and I have heard from many of our partners that this is sadly the norm. I cannot go a day without getting a call from a blocked number for someone promising to help me get my ERC refund faster, or offering to provide a predatory loan against it, because this has become such a pervasive problem.

Finally, in what I assume was an effort to supplement qualified IRS agents with artificial intelligence, earlier this year I received proposed corrections to my already accepted 2020 personal tax return, related to a 401k distribution I was able to take via the CARES Act to invest in startup costs for my business without the usual early distribution penalties. I provided clarifying documentation and verified my eligibility under CARES Act Section 2022 within a few days of receiving an unexpected bill from the IRS for these erroneous corrections, but it took months to get a response, and then it was only that the information was still being processed. Until this issue is resolved, the IRS is withholding a refund of over twenty thousand dollars for my 2021 personal tax return, which I have also been waiting on for over eight months. The agents I have spoken to about this have all apologized that they are incredibly short-staffed and dealing with an immense backlog. This refund is money that I would have undoubtedly reinvested in my business, like so many small business owners who are the first line of defense when their companies need a short-term loan.

While we wait for 2021 refunds and the long-overdue guidance from the IRS delaying even greater 2022 refunds, we are essentially financing the federal government for hundreds of thousands of dollars that we have to borrow at record high interest rates, which has created a cash flow crisis for my business. I have also had to pay our accountants almost double what we budgeted for tax support, to navigate the ever-changing tax codes, revise estimates while updated guidance is still pending, and regularly follow up with the IRS on our missing payments, since my staff and I have spent countless hours trying to get through that would have been far better spent focusing on our core competencies. I have estimated that between interest paid for capital loans while the IRS withholds money we critically need now, and the additional tax preparation and follow up fees we've incurred this year alone, we could have hired another full-time engineer. On top of these direct costs, I have applied for an increased line of credit to provide the necessary operating capital needed to hire and train new staff, for capital expense loans to purchase new equipment needed to take on bigger projects, and we're planning to apply for the SBA 8(a) business development program as soon as possible, but all of these are contingent on

being able to provide our finalized 2022 taxes, which remain stalled. The indirect costs of these delays are difficult to quantify, but they are significant.

In all of these instances, it is clear to me that the IRS lacks adequate funding for taxpayer services. Clear and timely refunds and guidance so that taxpayers can finalize our returns on time and accurately budget for future tax payments is critical. This is especially true for small businesses like mine that are investing in risky and expensive R&D, which the federal government has otherwise dedicated so many resources to supporting, such as SBIR. I commend our elected officials for reauthorizing the SBIR program, and I would love to be able to take advantage of other existing programs to support small businesses, such as the 8(a) business development program. I need the IRS to be a fully functional agency first, before that is a possibility. I appreciate your attention to this urgent matter, before it is too late for my business and so many others.

Thank you,

A handwritten signature in black ink, appearing to read 'Alicia Chapman'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Alicia Chapman