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**Opening Statement of Senator Chuck Grassley  
Hearing of the Senate Committee on Finance  
“Small Business and Rural Economic Development”  
Tuesday, June 4, 2002**

Chairman Baucus and I have called this hearing to focus on an issue on which Republicans and Democrats all agree -- the importance of tax relief for small business and farmers. All across America, the problem of high federal taxes is evident. Wall Street measures the economic slowdown by high-tech stock prices. Main Street uses the number of farmers buying equipment at the local dealer or taking out loans at the community bank. Both measures are important, but only one of them leads to farm auctions and empty storefronts. To get the economy back on track, we have to visit both Wall Street and Main Street. Today, we look at Main Street.

A significant portion of the tax burden is borne by small business and farm folks. These are the taxpayers who do business on Main Street. Farmers and small businesses rarely do business in the conventional corporate form. Most farms and small business are owned by sole proprietors, partnerships, LLCs or S-corporations. That means farmers and small business folks' taxes are paid with their 1040.

Now last June, President Bush's tax relief bill cut marginal individual income tax rates and greatly helped farmers and small businesses. That's just one of many reasons to support making the tax relief permanent. If the President's tax bill was permanent, farmers and small businesses would pay a lower marginal rate than the Fortune 500. If we don't make it permanent, then ask any farmer why he or she should pay 39.6 percent versus 35 percent paid by Fortune 500 companies.

In addition to marginal rate cuts, there are many tax problems faced by Main Street businesses that we will look at in today's hearing. We will explore several topics, such as expensing and accounting methods, and differing income tax treatments for the various business choices made by small business and agriculture. We will examine several legislative proposals designed to address tax problems faced by small business and farmers, to include Farm, Fishing and Ranch Risk Management (FFARRM) accounts and income averaging for farmers and fishermen.

Last year we had a hearing titled "Preserving and Protecting Main Street USA," and we focused on the fact that small business pays the lion's share of the tax and carries the burden in these tougher economic times of keeping the economy going. Last year the chief economist of the U.S. Small Business Administration testified that their research shows that 75 percent of the new jobs created in this economy comes from small business and two-thirds of those new jobs were created by firms with fewer than 20 employees. In addition the SBA felt that evidence suggests that small business is affected more severely in a downturn and that lowering and simplifying taxes helps small business increase productivity.

In this Congress I sponsored the *Tax Empowerment and Relief for Farmers and Fishermen (TERFF) Act*. Chairman Baucus was my co-sponsor, and we have been joined by 22 additional senators. There are 12 provisions contained in the TERFF Act, led by the FFARRM accounts, income averaging for farmers and fishermen, and several proposals to simplify questions concerning self-employment tax exposure and several cooperative provisions, just to name a few. I believe we should be committed to passing this bill in its entirety, but any one of the provisions would greatly enhance cash flow for all areas of agriculture and cooperatives.

In a previous hearing I laid out three principles I plan to use in all tax legislation: efficiency, equity, and simplicity. On the first, efficiency, we must make sure that we change the tax code in a way that grows our economy. Small businesses and farms are a key to jobs and growth. We should ensure that the tax system does not strangle this important part of our economy with irrational rules.

My second principle is equity or fairness. I want to make tax policy changes that address inequities in the tax code. There are many inequities in the code, some that hit small businesses and farmers hard, and we will hear about some of them today.

My third principle is simplicity. Everyone who fills out a Form 1040 knows about the complexity of the tax code. All across this country, Americans are dealing not only with the burden of paying federal taxes, but the added burden of tax complexity. Our witnesses today will address those complexities that specifically affect small businesses and farms in the Internal Revenue Code.

*An overview of present law and selected proposals regarding the federal income taxation of small business and agriculture, including FFARRM accounts, is available at <http://www.house.gov/jct/pubs02.html>, document number JCX-45-02.*