



Statement Submitted
By
National Beer Wholesalers Association

Senate Committee on Finance

Individual Income Tax
Business Income Tax
Savings & Investment

Tax Reform Working Groups

April 15, 2015

Chairman Hatch, Ranking Member Wyden and members of the Finance Committee Tax Reform Working Groups, the National Beer Wholesalers Association (NBWA) appreciates the opportunity to comment on some of the issues relevant to our members regarding tax reform.

NBWA is a trade association that represents the interests of the 3,300 licensed, independent beer distributors – with operations located in every state and doing business in every congressional district across the United States. NBWA members directly employ approximately 130,000 hardworking Americans who earn good wages and receive employer-provided benefits. When the NBWA members’ capital investment and community involvement activities are totaled and then added to the jobs that support these companies, beer distributors generate more than 345,000 jobs across the United States.¹

NBWA member companies are closely-held businesses. For them, tax reform represents a potential opportunity to improve the tax laws by reducing unnecessarily high tax rates while simplifying the rules by eliminating narrow, special benefits that apply to a limited number of taxpayers. However, like other closely-held businesses, NBWA members are anxious about tax reform. Based on some of the tax reform proposals that have been discussed to date, distributors are concerned that tax reform could result in significantly higher taxes on their business income.

As is common for closely-held businesses, NBWA member companies are generally organized as partnerships, limited liability companies, or S corporations. Along with sole proprietorships, these business types are treated as “flow-through entities” under the tax law – the business owners pay tax directly on the income of the business. As a recent Ernst & Young study revealed, businesses organized in “flow-through” form account for more than half of all jobs in the United States. **Any tax reform that results in a higher tax burden for these flow-through businesses would harm their ability to continue to serve as the main producers of jobs in the U.S. economy.**

As the Senate Finance Committee continues to consider tax reform, we believe it should keep in mind a few basic principles to avoid an adverse impact on closely-held businesses.

First, tax reform should be comprehensive, encompassing both businesses and individuals. Tax reform that is limited to reducing corporate tax rates and that is paid for by eliminating business tax deductions and credits across-the-board could result in significantly higher taxes on the income of the 95% of U.S. business entities organized in flow-through form.

A corollary is that tax reform must set the tax rates of corporations and individuals at the same, lower rates. The top tax rates on flow-through business income already increased from 35% in 2012 to as much as nearly 45% currently. And some in Congress have suggested increasing the top individual tax rates paid on flow-through business income even higher. There have also been

¹ For background on national and state-by-state job creation by beer distributors, see the 2013 report produced by the Center for Applied Business & Economic Research, Alfred Lerner College of Business & Economics, University of Delaware, “America’s Beer Distributors: Fueling Jobs, Generating Economic Growth, & Delivering Value to Local Communities,” available at <http://nbwa.org/sites/default/files/NBWA-Economic-Report-2013.pdf>.

suggestions of subjecting an increased share of flow-through business income to employment taxes or self-employment taxes. Such suggestions should be rejected. The tax rates on closely-held business income should be reduced, not increased.

Congress should also continue to seek ways to eliminate the economic distortions caused by the double taxation of corporate income. Following the tax law enacted in 2013, the top tax rate on dividends and capital gains increased from 15% to 23.8%. There have been suggestions of increasing the top rates on these types of income to 30% or more. As the Committee is aware, dividends are paid out of income that has already been taxed at the corporate level and then are taxed again in the shareholder's hands. Flow-through business entities are not subject to this punitive double-taxation, but this comes at a significant price; in order to retain their flow-through status, they are denied access to public capital markets.

Some have suggested the idea of subjecting existing flow-through entities to double taxation as C corporations. Obviously such an idea would harm affected closely-held businesses and would cost them in their ability to invest in their businesses and provide jobs. The double-taxation of corporate income is almost universally recognized to be undesirable, so subjecting thousands or millions of additional businesses to a double-tax regime cannot be viewed as "reform." Expanded double-taxation certainly would not result in the type of pro-growth tax system that should be the Committee's goal.

With regard to tax accounting issues, NBWA would urge the Committee to avoid accounting changes that have a retrospective impact or that will result in an acceleration of taxes paid by closely-held businesses. An example of such an accounting change is the Administration's \$105 billion tax-increase proposal to repeal the last-in-first-out (LIFO) method of inventory accounting. Repeal of LIFO would have an immediate adverse impact on the cash flow of NBWA members and others maintaining LIFO inventories. As a result of LIFO repeal, these businesses would owe significantly more in current taxes without having any additional business receipts out of which to pay those taxes. Any such impact on business cash flows would jeopardize the ability of affected businesses to continue to provide jobs. NBWA notes that former House Ways and Means Committee Chairman Dave Camp acknowledged the adverse impact of LIFO repeal on closely-held businesses by including in his 2014 tax reform discussion draft a reduced LIFO repeal tax rate for those businesses.

The ability to rapidly depreciate the costs of capital equipment stimulates new investments and helps create jobs. Accordingly, NBWA supports making permanent the ability of small businesses to deduct up to \$500,000 of qualifying equipment in the year that it was purchased. NBWA also supports permanent extension of bonus depreciation which allows all business owners to deduct an additional 50 percent of qualified property in the first year that it was placed into service.

NBWA and its members have long supported repeal of the federal estate tax that can force the sale of closely-held businesses in order to pay the tax. However, NBWA is appreciative of the permanent compromise included in the American Taxpayer Relief Act of 2012 that involves a \$5.25 million per person exemption (indexed for inflation) and a top rate of 40% on estates

above the exemption. NBWA urges the Committee not to do anything in tax reform that has the effect of increasing estate or gift taxes.

Beer distributors continue to provide tremendous employment opportunities to hard working men and women across the nation. Our organization stands willing to provide any assistance necessary to help ensure that so-called tax reform does not adversely affect American small business.

Thank you for your consideration of NBWA's views.

A handwritten signature in black ink, reading "Craig A. Purser". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Craig A. Purser
NBWA President and CEO