



Submission of Padgett Business Services Meaningful Small Business Tax Reform

Padgett Business Services is uniquely qualified to comment on small business tax reform. For over fifty years, we have been providing accounting, income tax planning and preparation, payroll and payroll tax services to thousands of small business owners through our network of 300 offices across the United States. Our clients generally have fewer than 20 employees and are what people would consider mom-and-pop businesses.

During this time, it has become clear to us that for most entrepreneurs the business checking account is the focal point for their bookkeeping. It is how they measure cash flow and profits, and to a great extent is the basis for their tax accounting as well. We are concerned that attempts at broadening-the-base for small businesses such as moving away from cash basis accounting or matching expenditures to income would result in most small businesses having to adopt complex accounting methods foreign to start up entrepreneurs. To these entrepreneurs capitalizing their businesses from personal savings, credit cards and cash flow, the idea that they must pay taxes on money not actually in their checking accounts is beyond comprehension and in many cases severely cuts into their ability to grow and hire new employees. Conversely, if Congress moved to expand cash accounting, it would help small business start-ups by providing more cash for starting a business and less for taxes in the early years.

So, as the Senate Committee on Finance begins the debate on changing the tax code, we would like to urge you to consider adding a new principle to the discussion: that small business tax accounting be no more complicated than keeping a basic business checking account.

As reference, we would direct the Committee's attention to the recommendations of President Bush's Advisory Panel on Federal Tax Reform and more recently to the work of the Kogod Tax Center at American University both of which have recommended a variation of what we have set out below.

In a nutshell, we are proposing the following:

- Permanent section 179 expensing, including leasehold improvements and computer software;

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- Increasing the threshold for the cash basis small business exception to \$10 million;
- Providing that businesses under this threshold would be exempt from tracking inventory separately but would instead expense the inventory as purchased;
- Exempting these businesses from the uniform capitalization rules;
- Combining the three existing provisions for start-up and organizational expenses into a single provision and increasing the threshold to \$10,000; and
- Providing simplification of the IRS repair rules for small businesses, by increasing the de minimis election from \$500 to \$2,000. In addition, the Committee should consider increasing the small taxpayer election currently in the regulations from 2 percent to 5 percent of the unadjusted basis of a building. We would not propose increasing the \$10,000 cap. We believe these changes would have the effect of keeping the new regulations more aligned with the cash flow needs of the small business taxpayer.

Many of these proposals have been part of various tax reform proposals over the last few years, including Chairman Max Baucus' discussion draft and the efforts in the House of Representatives to make certain extenders permanent. Taken in their entirety, however, they would move almost all mom-and-pop businesses toward a universe where they would use their business checking accounts as their sole accounting system, saving time and money and easing the most difficult problem facing any start-up entrepreneur: cash flow.

We look forward to working with the Committee to enact meaningful tax reform for all small businesses.

For additional information on a Simplified Cash Method proposal, please see the following:

David Kautter and Donald Williamson, "A Simplified Cash Method of Accounting for Small Business" Tax Notes, February 13, 2012, pages 863-867.

The Report of the President's Advisory Panel on Federal Tax Reform, pages 94-96, 127-128.