



**KOGOD SCHOOL *of* BUSINESS**  
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U.S. Senate Committee on Finance

Submission in Response to Chair's Request for  
Recommendations for Tax Reform

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July 14, 2017

Chairman Hatch, Ranking Member Wyden, Members of the U.S. Senate Committee on Finance (the “Committee”) and staff, my name is Caroline Bruckner and I submit the following comments in my capacity as Managing Director of American University’s Kogod Tax Policy Center (KTPC), which conducts nonpartisan policy research on tax and compliance issues specific to small businesses and entrepreneurs.

At the KTPC, we applaud the Committee’s initiative in soliciting submissions from stakeholders on how tax reform can work to establish a tax system that is more conducive to sustained economic growth for a 21<sup>st</sup> Century economy. As Congress moves forward with tax reform, this Committee will play the defining role in informing Congress on tax and compliance challenges facing businesses under the current system and developing necessary improvements, however, with respect to women-owned firms, there is significantly more work to be done.

Specifically, our latest research, [\*Billion Dollar Blind Spot – How the U.S. Tax Code’s Small Business Tax Expenditures Impact Women Business Owners\*](#), which we released on June 12, 2017, identifies a number of barriers to business growth that impact women-owned firms, the overwhelming majority of which are small businesses. Moreover, our report assesses how the U.S. tax code’s more than \$255 billion of tax expenditures targeted to help small businesses grow and access capital impact women-owned firms and makes the following findings.

- While women-owned firms have increased to now total more than 11 million (or 38% of all U.S. firms), the majority of women business owners are small businesses operating in service industries and they continue to have challenges growing their receipts and accessing capital.
- At the same time, three of the four small business tax expenditures we assessed are so limited in design that they either (i) explicitly exclude service firms, and by extension, the majority of women-owned firms; or (ii) could effectively bypass women-owned firms who are not incorporated or who are service firms with few capital-intensive equipment investments altogether.
- Our survey data of 515 experienced, engaged women business owners corroborates these findings, and nevertheless suggests that when women-owned firms can take advantage of tax breaks, they do. However, neither Congress nor Treasury or IRS or SBA has ever measured how the tax code impacts women business owners.
- For example, we identified only three women business owners who had ever used Internal Revenue Code Section 1202—a \$6 billion tax expenditure—to raise capital for their firms. While we expect that more than three women-owned firms have used this provision since its enactment in 1993, we don't have publicly-available taxpayer data to prove it. This example highlights why we need tax research on women business owners. Similarly, our survey found that women business owners use Section 179 at significantly lower rates than existing government research finds for businesses generally. This tax break is one of the most expensive (it will cost \$248 billion from

2016-2020), and yet we don't have any research on how it benefits women business owners.

- Our findings raise questions as to (i) whether the U.S. tax code's small business tax expenditures are operating as Congress intended for these small businesses; and (ii) whether the cost of these expenditures has been accounted for in terms of their uptake by women-owned firms.

In answering these questions impacting millions of women business owners, we found that Congress and stakeholders have a billion dollar blind spot when it comes to understanding how effective small business tax expenditures are with respect to women-owned firms. To date, neither this Committee nor the U.S. House of Representatives Committee on Ways and Means has held a full-committee hearing on assessing the impact of the tax code's small business tax expenditures on women business owners. Our research indicates Congress does not have data or research to make evidence-based tax policy decisions with respect to these small businesses.

The time is now for Congress to consider the tax challenges of women business owners who are now more than one-third of all U.S. businesses, but who continue to struggle getting access to capital. As such, we recommend the following strategies for this Committee to employ as part of its work on tax reform including:

1. Holding joint hearings together with the U.S. Senate Committee on Small Business and Entrepreneurship on the small business tax issues identified in our report;
2. Requesting the Joint Committee on Taxation develop estimates on how small business expenditures impact women-owned firms;
3. Requesting the federal Commission on Evidence-Based Policymaking develop strategies for developing the data we need to measure these expenditures in terms of women-business owners; and
4. Requesting the nomination and confirmation of a new Director of the Census Bureau.

Congress has demonstrated time and again its commitment to alleviating the tax burdens faced by American businesses generally, and small businesses specifically. So much so, that under current law, taxpayers will forego more than \$255 billion from 2016 to 2020 just on the four small business tax expenditures assessed in our report. And yet there has been no formal accounting as to whether and how these expenditures impact or are distributed to or among women-owned firms—99% of which are small businesses, according to SBA's Office of Advocacy's latest report on women-owned firms. As a result, Congress doesn't know whether the money it has spent trying to help smaller firms access capital and grow has been well spent with respect to women-owned firms.

The absence of research on these issues is contrary to recent Congressional efforts to engage in evidenced-based policy making going forward and means Congress does not have adequate data to understand the challenges to growth impacting more than 11 million small businesses. This

Committee can and should immediately work to develop the needed research to understand the tax barriers facing these small businesses. We stand ready to aid the Committee in this important work on behalf of the millions of small businesses impacted by these issues.