



**Statement for the Record
Submitted to the Committee on Small Business
United States House of Representatives
Washington, D.C.**

**Submitted by Kristie Arslan
President & CEO, National Association for the Self-Employed
April 10, 2013**

The National Association for the Self-Employed (NASE) respectfully submits this official statement for the record on today's hearing, "*Small Business Tax Reform: Growth Through Simplicity*." The NASE represents the 22 million self-employed and micro-business owners (10 employees or fewer), providing educational resources for those looking to start and grow their businesses. Founded in 1981, the association has been the sole voice advocating for America's small businesses in all areas of public policy, especially in the area of the tax inequities faced by the self-employed, for the past 30 years.

For background purposes, we would like to put into context the role of the self-employed in the small-business community. At present, there are roughly 27 million small businesses nationwide, ranging from 1 to 499 employees and of those, **22 million are identified as self-employed, accounting for more than 78 percent of the entire small-business community, generating roughly \$950 million dollars annually in sales** (2010 Non-Employer Statistics, U.S. Census Bureau). The majority of the self-employed, roughly 56 percent, have their business organized as a sole-proprietorship, and thus any significant tax reform in the corporate area will have little if any impact on the self-employed.

On behalf of our members, of which 78 percent indicated overwhelming support in a 2012 survey on tax reform, the NASE is in favor of comprehensive tax reform, in order to create a simplified tax code that treats all businesses fairly while also removing unnecessary hurdles and streamlining a cumbersome and overwhelming tax filing process. So strong is the call for reform that in 2012, 96 percent of our members deemed individual and corporate tax reform as a "very important or moderately important" issue for Congress to address in 2013.

Yet lawmakers largely ignore the self-employed in proposed reforms. The NASE fully understands that the Ways and Means small-business draft is not inclusive of all potential recommendations for reform, but we are concerned that the draft seems to be completely void of any proposals that would address the continued disparity faced by the self-employed under the current tax code. In blunt terms, only one of the four components has any bearing on the self-employed community, *Unified Deduction for Start-Up and Organizations Expenses*. And it is ironic that the framework for the unified deduction is included in H.R. 886, *Small Business Tax Relief Act of 2013*, which includes an additional six other tax measures that the small-business draft overlooks (**Note:** the small business draft does include the permanent expensing provision which is included in H.R. 866).

Due to our concern, the NASE has met with various tax staff members to discuss additional items that we encourage the House Committee on Ways & Means as well as the House Committee on Small Business to consider as they near finalizing draft legislation reforming the tax code. True to his word, Chairman Camp has led a transparent process for his reform efforts, which is to be applauded, and we are hopeful that our recommendations will be strongly considered and included in the final text of the overhaul tax reform proposal.

The following are additional tax proposals put forth by the NASE:

1. Deduction of health insurance costs for the self-employed as a qualified business expense by adding a line item on the Schedule C form and not on page one of Form 1040;
 - The biggest tax inequity faced by the self-employed continues to be their inability to deduct the cost of the health insurance as a qualified business expense. This amounts to roughly \$1,800 in additional taxes per year for self-employed individuals.
2. Amend the definition of “employee” to include the owner and spouse of a sole proprietorship, or a 2 percent or greater shareholder in an S Corporation – a simple legislative or administrative fix to current language;
 - This would address many issues related to “fringe benefits,” for example: the applicability of an HRA 105 plan, retirement plan contributions, and health insurance premiums.
3. Simplified and streamlined definition of independent contractor versus employee by expanding the Form 1099 that requires the owner and contractor to agree to their business relationship in a transparent manner;
 - Reduction of abuse by business owners and their use of independent contractors.
4. Simplified depreciation calculators, reporting requirements, and accelerated options for most standard business items and amounts, all of which would be included as a line on the Schedule C form;
 - In developing simplified deduction calculators, the business owner would be able to easily apply for the correct deduction amount and simplify a process that is currently unnecessarily complicated.
5. Building off the simplified home office deduction, identify other areas to establish standard deduction options based on industry and location, resulting in the development of a Standard Schedule C-EZ form.
 - Recognizing the difficulty in creating standard deductions, we believe that if the necessary time and energy were directed towards creating such a system, the taxpayer would benefit enormously. This has the opportunity to becoming the greatest tool towards simplifying the tax code for small business owners.

All of the above proposals meet the criteria of creating a lean, simplified, equitable tax code – inspiring entrepreneurship and growth within the small-business community.

While we don’t want to over-simplify the impact of these changes, we do believe it is important to note that we would encourage this Committee and the Ways and Means Committee to be bold in their actions.

It goes without saying that any significant reform to the tax code will be challenging, but we believe that putting forth a dynamic, common-sense proposal for bringing the tax code into the 21st Century can be accomplished if the proposal provides for a transformational change to all aspects of the tax code, individual and corporate.

As it stands now, our concern remains that the draft proposal looks only to modify or tweak the current tax code, but falls short of taking a path to overhauling the dysfunctional and byzantine tax code with a vision for complete reform of the individual and corporate tax structure.

We look forward to continuing to work with the Small Business and Ways and Means Committees on achieving comprehensive tax reform in the 113th Congress.

Respectfully

A handwritten signature in black ink that reads "K. Arslan". The signature is written in a cursive, flowing style.

Kristie Arslan, CEO & President
National Association for the Self-Employed