



**National Association
for the Self-Employed**

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Testimony of

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Senate Committee on Small Business & Entrepreneurship
**“Small Business Recovery: Progress Report on Small Business Jobs Act
of 2010 Implementation”**

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On behalf of the National Association for the Self-Employed (NASE) and our 200,000 member businesses, I thank the Chair, Ranking Member and Committee Members for the opportunity to speak today on the implementation of the Small Business Jobs Act of 2010 and the next steps we must take to improve and expand upon the vital benefits it offered to America's smallest businesses.

Today's economic growth is being driven by the incredibly diverse self-employed business community, and the NASE is working to ensure that they are in a position to be as successful as possible. We work day in and day out to actively challenge the near-universal lack of understanding about the self-employed.

With the current economic dialogue focused on jobs, it is important to note that our members and the 22 million self-employed Americans are not solely "hobby" enterprises or temporary freelance workers between permanent, "real" jobs. Being self-employed means you have created a job for yourself and have prevented one more individual from showing up on the unemployment rolls. Self-employed businesses successfully provide for families and contribute to local communities – and these jobs are just as valuable to the economy as an office or factory job. These businesses are just as essential as brick and mortar businesses.

Though vulnerable to tough economic times, self-employed businesses grow faster than all other segments of the economy and are historically a key driver of economic recovery after a recession. Business startups reached their highest levels in 14 years during 2009, suggesting that laid-off workers are choosing to join the ranks of the self-employed rather than take their chances in a job market that remains unstable.

Yet, despite accounting for 78 percent of all small businesses in the U.S. and collectively contributing about \$1 trillion to the economy every year, this dynamic business demographic is too often misunderstood and underrepresented in the policy fashioned for small business. Our nation's lawmakers and regulatory agencies commonly craft public policy geared toward the tiny sliver of the business demographic that is corporate America.

This narrow policy focus on a small percentage of businesses is why the Small Business Jobs Act was so crucial to our community. The Small Business Jobs Act of 2010 included key provisions that benefited the vast majority of micro-businesses and provided some much needed bottom-line tax savings to the self-employed.

Tax Equity for the Self-Employed

For years the NASE has been working to allow the self-employed access to the same tax benefits enjoyed by all other businesses. A key disparity in the tax code is the treatment of health insurance costs. The self-employed have not received the same tax deduction for health costs that all other businesses entities have at their disposal.

The self-employed must pay the employer and employee contribution to payroll taxes, totaling up to 15.3 percent on business income. For the self-employed, payroll taxes are called self-employment taxes. Since they do not receive a business deduction for their health insurance costs, they must pay more in payroll taxes than other businesses who receive this full benefit.

With the passage of the Small Business Jobs Act of 2010, the self-employed were allowed to take a one-year tax deduction on health insurance costs for the purposes of calculating self-employment taxes. Qualifying business owners could deduct their 2010 health insurance costs from their self-employment tax on their 2010 tax return.

What did this deduction mean to someone who is self-employed? Health insurance and taxes are the two highest costs for small business. Annual premiums in the individual market averaged \$2,985 for single coverage and \$6,328 for family plans nationwide in mid-2009, according to a report released by America's Health Insurance Plans (AHIP). Based on these costs, the one-year tax deduction in the Small Business Jobs Act of 2010 saved self-employed business owners approximately \$456.71 to \$968.14 in taxes. Depending on the cost of their health coverage, some businesses likely saved even more.

In this difficult economic time, this deduction helped business owners lower their tax liability or provided them with a more substantial refund that could be used to reinvest in their business. Best of all, this deduction – though temporary – put the self-employed, America's smallest businesses, on the same tax playing field as other businesses for the first time.

NASE Member Michael Kagan of Dover-Foxcroft, Maine, is owner of M. Kagan & Associates. He is a self-employed biotech consultant with over twenty-five years of experience as an engineering and manufacturing executive in both developing and bringing products to market. Mr. Kagan saved \$1,400 in taxes due to the one-year tax deduction for health insurance costs in the Small Business Jobs Act, which he reinvested in office automation for his growing business.

Timothy Doyle, a NASE Member from Donaldsonville, Louisiana, is an electrical contractor and the owner of High Standards Electric, LLC. He took his \$730 in tax savings and put it towards his next two months of health insurance premium costs.

Bullseye Appraisal's owner, Adrian Stumbagh of Spokane, Washington, saved \$940 in taxes. The deduction helped lower his tax liability on his return, saving him money.

These are just a few examples of the millions of self-employed business owners who benefited from the self-employment tax deduction on health insurance costs in the Small Business Jobs Act.

The question now is should we extend this benefit and how can we better implement this deduction in the future.

Next Steps

The NASE strongly supports leveling the playing field for the self-employed and providing them with a permanent deduction on health insurance costs for payroll tax purposes. It is imperative that the 22 million self-employed Americans receive the same tax treatment of health care costs as all other businesses.

While we understand that due to the fiscal climate an immediate permanent solution may be difficult to achieve, we believe that at a minimum this deduction should be extended for a two-year period.

Should an extension be passed, we strongly urge Congress to encourage the IRS to rethink its approach to implementing this vital deduction. The method the IRS employed to provide self-employed taxpayers with the deduction was confusing and not the standard approach for a business deduction. They created a new line (Line 3) on the 2010 Form 1040 Schedule SE, the form utilized to calculate self-employment taxes, to allow self-employed taxpayers to take this deduction.

It would be preferable and less confusing for self-employed taxpayers to include this deduction on Form 1040 Schedule C in Part II, which incorporates all business expenses. Self-employed taxpayers had to carefully read the directions for the 2010 Form 1040 Schedule SE to take advantage of this one-year deduction since deductions are not typically on this form.

Furthermore, the Small Business Jobs Act was passed late in the year, leaving minimal time for the IRS to provide guidance to stakeholders and taxpayers on this deduction. An extension of this critical tax deduction for the self-employment community should be passed as soon as possible to allow the IRS sufficient time to implement the provision on the 2011 tax forms and to give stakeholders the ability to properly educate business owners on this benefit.

Other Key Provisions in the Small Business Jobs Act

Many of the new jobs recently created are also new companies – the startup rate in 2010 was the highest it has been in 15 years, according to the Kauffman Index of Entrepreneurial Activity. More than half a million new businesses were created in 2010 as the poor economy and high employment rates have led more individuals into business ownership.

The Small Business Jobs Act provided for an increase in the deduction for startup expenditures in 2010 to help these new businesses. The deduction was doubled, permitting new entrepreneurs to deduct up to \$10,000 in expenses. This provision, unlike the self-employment tax deduction, was authorized for two years allowing startups to benefit from this improved deduction for one more year, on their 2011 tax return. With small businesses growing faster than their larger counterparts and accounting for 64 percent of net new jobs created, the NASE feels that it is essential to permanently allow new businesses this increased deduction for startup expenditures. It is imperative in this new economy that we foster the creation of new businesses as the startup deduction does.

Access to capital also continues to be a large problem for the self-employed and micro-businesses, despite efforts by the federal government to spur lending to small businesses. The NASE was a strong supporter of the Small Business Lending Fund included in the Small Business Jobs Act. However, eight months after the bill was signed into law, money has yet to reach the community banks, credit unions, community development funds and other intended lending institutions. Thus, small businesses have not received any benefit from the Small Business Lending Fund.

Lawmakers must encourage the Administration to move quicker on implementing this portion of the Small Business Jobs Act so business owners can begin working with their lending institution to obtain much needed funding.

Conclusion

Policymakers on both sides of the aisle have been struggling to stimulate the economy and put a definitive end to the Great Recession. These efforts have included sector-specific bailouts, export and manufacturing initiatives, the American Recovery and Reinvestment Act of 2009 amongst other policy approaches. While all of these programs helped some notable companies and stimulated some industry sectors, most of these efforts provided little benefit to the typical American business. The lone bill providing the majority of our nation's small business with some actual, bottom-line cost savings was the Small Business Jobs Act of 2010.

America's self-employed have long asked to have the same opportunity for success afforded to big business. They seek no more than the same benefits received by their larger counterparts. The NASE encourages lawmakers to stand up for America's smallest businesses and extend key provisions in the Small Business Jobs Act of 2010.