

The Federal Tax Code: Small Business Provisions and Latinos

The “Tax Cuts and Jobs Act,” the latest tax bill from House Republicans, would result in a massive tax cut for the richest Americans and big corporations, while providing little, if any, tax relief to working- and middle-income families.¹ Corporations would see their rate drop from 35% to 20%, amounting to a \$1.5 trillion tax cut, and the rich would disproportionately benefit: about 45% of the bill’s tax cuts would go to households with incomes above \$500,000.² However, the tax plan would do almost nothing for small businesses, which are the primary drivers of job creation: since 2009, small businesses have created two out of every three new private sector jobs.³

Nationally, there are 4.37 million Latino-owned businesses, generating \$700 billion in revenue.⁴ They are growing two to three times faster than the national average, standing to create millions of private sector jobs.⁵ Between 2012 and 2017, the number of Latino-owned businesses increased nearly 32% compared to a 13.8% growth rate overall.⁶

Instead of helping these economic engines thrive, the Republican tax proposal would heavily benefit businesses like private equity firms, hedge funds, and real estate developers.⁷ Revenue lost through these massive tax cuts would explode the deficit and lead to devastating cuts in spending on important programs like health care, nutrition, education, and housing, jeopardizing the well-being of Latino families.

What About Changes to the Tax Code?

The costliest provision of the House Republican tax bill would reduce the corporate tax rate from 35% to 20%, losing \$1.5 trillion dollars in revenue over a decade. These benefits would go directly to large corporations.⁸ The bill would also repeal the alternative minimum tax (AMT), which, along with regular income tax, is a measure to determine tax liability. The AMT is used

by both individuals and corporations. The corporate AMT rate is 20%, with an exemption allowed. Repealing the AMT would cost \$40.3 billion over ten years.⁹

One provision of the House bill would reduce the rate at which pass-through businesses are taxed, which has been touted misleadingly as a boon for small businesses. Unlike traditional corporations who are subject to a business income tax, pass-through businesses—sole proprietorships, partnerships, limited liability companies, and S corporations—pay taxes at the regular income tax rate, up to 39.6%. The House bill would cap the rate at which pass-through income is taxed at 25%. Currently, 90% of pass-through owners pay a rate of 25% or less, so this change would benefit the top 10% of pass-through businesses.¹⁰ This reduction would cost \$448 billion over a decade.¹¹

The House Republican bill would also make it harder and more onerous for self-employed and small businesses to claim the Earned Income Tax Credit (EITC). The bill directs the IRS to evaluate the tax returns of these filers to determine if there were deductions they could have, but did not take. Some of these filers may not be aware of all possible deductions they are eligible for, but they would be penalized for not taking each deduction available to them. The bill also calls on the IRS to audit more self-employed and small business filers claiming the EITC, permitting them to deny the filers the EITC unless they can fully substantiate their income records to the satisfaction of the IRS.

Will Latino-Owned Businesses Benefit?

Unfortunately, the majority of the changes to the tax code that impact businesses will not help Latino-owned companies. UnidosUS estimates that four in five Latino businesses would see an average after-tax income gain of only .3% by 2027. These businesses account for most of the small and medium sized Latino-owned businesses.¹² Under the provisions of the House Republican tax bill:

- Ninety percent (over four million) of Latino businesses would receive no benefit from the proposed corporate tax reductions. Most Latino businesses are sole proprietorships, so reducing corporate taxes would not impact these businesses.¹³
- Taxes will increase for more than 1.5 million Latino-owned business (35% of all Latino-owned businesses) by 2023 from the repeal of the alternative minimum tax, which gets rid of several beneficial personal exemptions, and from changes to how amounts are indexed for inflation.¹⁴

- Over half (two million) of Latino-owned businesses will see no increase in after-tax income from the reduction in the pass-through tax rate.¹⁵
- Low-income business filers claiming the EITC would encounter a more confusing and paperwork-heavy process than the one currently in place, which would create new barriers for them to access the pro-work, anti-poverty tax credit.

Congress should oppose a tax agenda that disproportionately benefits large corporations and high-profit businesses. Instead of providing trillions in tax cuts for the richest Americans and large corporations, Congress should ensure small businesses are able to take advantage of a tax code that helps them create jobs, innovate, and grow.

All sources accessed November 2017.

¹ House Committee on Ways and Means, *Tax Cuts and Jobs Act, H.R. 1, Section-by-Section Summary*, report prepared by House Ways and Means Committee Majority Tax Staff, 115th Cong., 1st sess., 2017, https://waysandmeansforms.house.gov/uploadedfiles/tax_cuts_and_jobs_act_section_by_section_hr1.pdf.

² Chye-Ching Huang and Guillermo Herrera, "Joint Committee on Taxation Distribution Tables Confirm Skewed Priorities of House Tax Bill," (Washington, DC: Center on Budget and Policy Priorities, 2017) <https://www.cbpp.org/research/federal-tax/joint-committee-on-taxation-distribution-tables-confirm-skewed-priorities-of>.

³ Bureau of Labor Statistics, "Business Employment Dynamics," <https://www.bls.gov/bdm/>.

⁴ Geoscape and U.S. Hispanic Chamber of Commerce, *Hispanic Businesses and Entrepreneurs Drive Growth in the New Economy*, (Miami, FL: Geoscape and USHCC, 2017), http://geoscape.com/wp-content/uploads/2017/09/HBR-Final-Report_2017.pdf.

⁵ Douglas Rivers, et al., *State of Latino Entrepreneurship, 2016*, (Stanford, CA: Stanford Graduate School of Business, 2016), <https://www.gsb.stanford.edu/faculty-research/publications/state-latino-entrepreneurship-2016>.

⁶ Ibid.

⁷ Steven Rosenthal, "The 25-Percent Rate for Pass-Through Businesses Helps Rich Investors, Not 'Small' Businesses," November 8, 2017, *Tax Policy Center*, <http://www.taxpolicycenter.org/taxvox/25-percent-rate-pass-through-businesses-helps-rich-investors-not-small-businesses>.

⁸ Joint Committee on Taxation, *Estimated Revenue Effects of H.R. 1, the "Tax Cuts and Jobs Act,"* report prepared by the Joint Committee on Taxation, 115th Cong., 1st sess., 2017, <https://waysandmeansforms.house.gov/uploadedfiles/jct.pdf>.

⁹ Ibid.

¹⁰ Steven Rosenthal, "The 25-Percent Rate for Pass-Through Businesses."

¹¹ Joint Committee on Taxation, *Estimated Revenue Effects of H.R. 1*.

¹² UnidosUS calculations and calculations using Joint Committee on Taxation, *Estimated Revenue Effects of H.R. 1, the "Tax Cuts and Jobs Act"* and Chuck Marr, Chye-Ching Huang, Brandon Debot, and Guillermo Herrera, "Republican Leadership Tax Plan's Pass-Through Tax Break Would Provide Massive Windfall to the Wealthy,"

November 2, 2017, *Center on Budget and Policy Priorities*, <https://www.cbpp.org/research/federal-tax/republican-leadership-tax-plans-pass-through-tax-break-would-provide-massive>.

¹³ UnidosUS calculations using data from U.S. Census, “Survey of Business Owners (SBO) - Survey Results: 2012,” February 23, 2016, *U.S. Census Bureau*, <https://www.census.gov/library/publications/2012/econ/2012-sbo.html> and Douglas Rivers, et al., *State of Latino Entrepreneurship, 2016*.

¹⁴ UnidosUS calculations and calculations using TPC Staff, *Preliminary Distributional Analysis of the “Tax Cuts and Jobs Act,”* (Washington, DC: Tax Policy Center, 2017), <http://www.taxpolicycenter.org/publications/preliminary-distributional-analysis-tax-cuts-and-jobs-act>.

¹⁵ UnidosUS calculations and Chuck Marr, Chye-Ching Huang, Brandon Debot, and Guillermo Herrera, “Republican Leadership Tax Plan’s Pass-Through Tax Break Would Provide Massive Windfall to the Wealthy.”