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April 14, 2015

Senator Mike Crapo  
Senator Sherrod Brown  
United States Senate  
Committee on Finance  
219 Dirksen Senate Office Building  
Washington, DC 20510-6200

Dear Senator Crapo and Senator Brown:

It is heartening that the Senate Finance Committee has undertaken the hard but necessary work of reforming our tax code. Reforming the taxation of savings and investment is important to restore strong economic growth and rising real wages.

Later this month, the Heritage Foundation will release a paper examining the adverse economic impact of the current business tax system and making broad recommendations for major reform.

In addition, I would like to provide 5 recommendations for reform that relate particularly to savings and investment that were included in testimony I delivered to the House Small Business Committee on March 4, 2015 [“Building an Opportunity Economy: The State of Small Business and Entrepreneurship,” Testimony before the Committee on Small Business, United States House of Representatives, March 4, 2015 [http://smallbusiness.house.gov/uploadedfiles/3-4-2015\\_final\\_burton\\_tesimony\\_final.pdf](http://smallbusiness.house.gov/uploadedfiles/3-4-2015_final_burton_tesimony_final.pdf) ].

- 1. Expensing of Investment in Machinery and Equipment.** Amend Internal Revenue Code §179 to permanently allow annual capital expenses of up to \$1 million to be deducted when incurred. Expensing would simplify small firms’ tax returns, reduce compliance costs, reduce small firms’ cost of capital and aid cash flow.<sup>1</sup>
- 2. Retirement Account Simplification.** Very few small employers offer retirement accounts because of the complexity, high compliance costs and regulatory risk of doing so.<sup>2</sup> This makes it more difficult for them to attract employees and more difficult for both the small business owners and their employees to save for retirement. This is one of the

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<sup>1</sup> David Burton, “Constructive Small Business Expensing Bill Introduced,” *The Daily Signal*, April 11, 2014 <http://dailysignal.com/2014/04/11/constructive-small-business-expensing-bill-introduced/>; Curtis Dubay, “Ways and Means Committee Following Right Approach on Tax Extenders,” *The Daily Signal*, May 27, 2014 <http://dailysignal.com/2014/05/27/ways-means-committee-following-right-approach-tax-extenders/>.

<sup>2</sup> Kathryn Kobe, “Small Business Retirement Plan Availability and Worker Participation,” Small Business Administration, Office of Advocacy, March 2010, Table 2 (only 28 percent of firms with under 100 employees offered some kind of retirement plan in 2006) <https://www.sba.gov/sites/default/files/rs361tot.pdf>.

most complex areas of the tax law and desperately in need of simplification.<sup>3</sup>

One possible solution would be to amend the Internal Revenue Code to create a Small Business Uniform Retirement Account as a voluntary alternative for employers with 500 or fewer employees to replace: (1) simplified employee pensions (SEPs), (2) salary reduction simplified employee pensions, (3) SIMPLE IRA plans, (4) SIMPLE 401(k) plans, (5) Keogh plans, (6) regular 401(k)s (with respect to employers with 500 or fewer employees), (7) profit-sharing plans (with respect to employers with 500 or fewer employees), (8) money purchase pension plan (with respect to employers with 500 or fewer employees), and (9) employee stock ownership plans (with respect to employers with 500 or fewer employees). The Small Business Uniform Retirement Account would (1) have check the box eligibility, (2) uniform employee eligibility, (3) automatic enrollment of employees with an option to opt-out, (4) no non-discrimination, coverage or key employee rules, (5) allow contribution levels to be chosen by the employee, (6) be maintained through a financial institution and (7) be available to employees and self-employed persons (including partners and LLC members).

- 3. Reduce the Top Long-Term Capital Gains Tax Rate to 20 percent.** Evidence shows that a capital gains rate much above 20 percent actually reduces federal revenues. In addition, a high capital gains tax rate reduces the willingness of investors to invest in relatively risky start-up and growth companies and impedes capital formation. The top long-term capital gains tax rate should not exceed 20 percent (including the Obamacare investment income tax).<sup>4</sup>
- 4. Increase the Incentive Stock Option (ISO) Cap Limitation from \$100,000 to \$250,000.** Internal Revenue Code section 422(d) limits incentive stock options to \$100,000 in aggregate stock value (not gain). This limits the utility of ISOs as a means to attract talent.
- 5. Estate and Gift Tax Reduction.** The unified credit should be increased so that \$10 million is effectively excluded from the estate and gift tax. For 2015, the amount that is effectively excluded is \$5.4 million. Family farms and businesses should not either have to be sold to pay estate taxes when parents die or incur huge life insurance premiums to provide the means of paying the tax.

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<sup>3</sup> See generally, David C. John, "Pursuing Universal Retirement Security Through Automatic IRAs and Account Simplification," Testimony before The Committee on Ways and Means, United States House of Representatives, April 17, 2012 <http://www.heritage.org/research/testimony/2012/04/pursuing-universal-retirement-security-through-automatic-iras-and-account-simplification>.

<sup>4</sup> J.D. Foster, "Obama's Capital Gains Tax Hike Unlikely to Increase Revenues," Heritage Foundation Backgrounder #2391, March 24, 2010 <http://www.heritage.org/research/reports/2010/03/obamas-capital-gains-tax-hike-unlikely-to-increase-revenues>; Stephen J. Entin, "President Obama's Capital Gains Tax Proposals: Bad for the Economy and the Budget," Tax Foundation January 21, 2015 <http://taxfoundation.org/blog/president-obama-s-capital-gains-tax-proposals-bad-economy-and-budget>.



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Sincerely,

A handwritten signature in black ink, appearing to read "D. R. Burton".

David R. Burton  
Senior Fellow in Economic Policy  
The Heritage Foundation