



For Immediate Release
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Contact: Dan Virkstis
202-224-4515

**Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Small Business and Tax Reform**

The poet Archibald MacLeish once wrote: “The business of the law is to make sense of the confusion of... life — to reduce it to order, but at the same time to give it possibility, scope, even dignity.”

Today we consider the laws governing the taxation of small businesses. Do those laws bring order out of confusion? Or do they bring confusion out of order? And how far are they from the ideal of giving businesses possibility, scope, or even dignity?

Small businesses play an important role in keeping our economy strong. They are a vital source of job creation, economic opportunity, and technological innovation.

There are about 26 million small businesses in America. Businesses with fewer than 500 employees represent more than 99.9 percent of all American businesses.

Small businesses pay nearly half of total American private payroll. They have generated 60 to 80 percent of the new jobs annually over the last decade.

And small businesses employ 40 percent of high tech workers such as scientists, engineers, and computer workers.

Small business is particularly important in rural states like my home state of Montana. In Montana, even the large businesses are generally small businesses. Rural communities generally do not have big corporate employers. Rural families rely on small businesses for jobs.

So I am happy that today we are looking small business tax issues, as we prepare for tax reform.

The way that a business chooses to organize has a significant effect on its taxes. The principals of a business can choose to have their income taxed as part of their individual income tax. Or they can choose to have their income taxed separately at the level of the business in corporate form.

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The income of sole proprietorships, partnerships, and S corporations is all taxed as individual income, after it is allocated to the business owners. People call these types of businesses “pass-through entities.”

Each of these pass-through entities has its own unique features. Some of these features can create barriers to growth and innovation. Others can provide financial advantages and incentives for the business to grow and create jobs.

When we think about tax reform, we have to consider whether the tax code needs all of these different models. We also have to keep in mind that the needs of different small businesses are different.

“One-size-fits-all” does not work when choosing a business model. The needs of a sole proprietorship may differ from those of an S corporation. We need to keep these differences in mind, so that all businesses have a fair shake and can benefit from reform.

Today, we will explore these differences. We will look at the way that the Federal government taxes the income of domestic non-corporate businesses. We will seek to identify the benefits to the American economy provided by partnerships and other pass-through entities.

And we will examine entity classifications. We’ll hear about the background of current entity classifications, the purpose behind each classification, and the issues and problems that arise from the current entity classifications.

The witnesses we have here today have a breadth of knowledge and experience dealing with business entity choices. They know the effect that taxes have on small businesses. And they know the way that small businesses choose to do business.

So let us examine the laws governing the taxation of small businesses. Let us try to bring some order to the confusion. And let us work toward the goals of giving businesses possibility, scope, and even dignity.

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