BUSINESS TAX REFORM

PROPOSAL: In reforming the federal tax code, Congress should:

Lower the rate of the income tax on all business income.

Provide interstate motor carriers protection against burdensome and discriminatory state taxation; and

Retain the existing provision in federal law granting motor carriers using owner-operators a safe harbor for these independent-contractor relationships.

BACKGROUND: The health of the Nation's economy depends critically on interstate commerce, and interstate commerce in turn depends very heavily on efficient freight transportation. Most of that freight is carried by truck – some 67% by tonnage and some 81% as measured by transportation receipts. The interstate motor carrier industry is correspondingly large, comprising several hundred thousand for-hire trucking companies. All told, some 6.8 million Americans are employed in job related to trucking, about one in every 17 U.S. workers in the private sector. Although a few carriers are large, the overwhelming majority of trucking companies are, by any definition, small businesses. The average trucking company operates a fleet of only six trucks, and there are many thousands of operations with only a single vehicle. In many respects, these small businesses resemble their counterparts in other industries, except that even the smallest motor carriers may travel into dozens of states in the regular course of their business.

JUSTIFICATION:

-- The corporate income tax rate imposed by the U.S. is the highest in the Organization for Economic Cooperation and Development (OECD). Income taxes put American companies at a disadvantage and are a drag on the economy. Lowering the rate will benefit not only international businesses but will boost the economy, and in doing so benefit domestic companies as well.

-- Most trucking companies are small businesses. ATA statistics indicate the average motor carrier operates six trucks. Many of trucking companies are now organized for tax purposes as pass-through entities. For this reason, it will be important in tax reform to lower not only the corporate tax rate, but the tax rates applying to all business income.

-- The trucking industry currently pays a very high effective tax – about 31%, according to an analysis by New York University. A number of existing tax provisions are beneficial to trucking, but if the industry's effective tax rate were significantly reduced from where it is today, the industry is open to the modification or elimination of these, including bonus and accelerated depreciation.

-- As a part of the Motor Carrier Act of 1980, which deregulated the trucking industry, Congress granted the industry relief from discriminatory state and local property taxes. Although this provision has been helpful to trucking companies that faced property taxes with a discriminatory effect, carriers face other state and local taxes for which there is no effective federal relief. Congress has, however, granted the railroad industry relief (in the Railroad Regulatory Reform and Revitalization Act of 1976)from all forms of discriminatory state and local taxes; the trucking industry is requesting protection similar to that granted many years ago to our competitors. In addition, motor carriers face a serious threat of disproportionate compliance costs related to state business taxation, from states in

which trucking companies do little or no business and with which they have few if any of the connections that are commonly considered to establish taxability. This is a longstanding problem for which only a federal solution will be effective.

-- A large portion of the trucking industry consists of motor carriers whose drivers are independent contractors – owner-operators. The latter are true small businesses, whose proprietors have made very significant investments in equipment and whose relationships with trucking companies are governed by regulations of the Department of Transportation. Congress recognized the validity of these independent-contractor relationships in Section 530 of the Revenue Act of 1978, which grants to carriers and their owner-operators an effective safe harbor from attempts by the Internal Revenue Service to reclassify these workers as employees. Section 530 should be retained.

