



555 12th St NW, Suite 1001
Washington, D.C. 20004

1-800-552-5342
NFIB.com

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Dear Representative:

On behalf of NFIB, the nation's leading small business advocacy organization, I write to express concerns regarding the Senate amendment to H.R. 5376, the *Inflation Reduction Act of 2022*.

With high inflation, workforce shortages, and supply chain disruptions, small businesses are facing persistent negative economic headwinds. Inflation remains a top issue for businesses in every sector across the country with 75% of small business owners reporting inflation is worsening.¹ In fact, the NFIB Research Center's latest monthly survey found that the percent of small business owners reporting inflation as their biggest problem reached its highest level since 1979. Expectations for better business conditions have deteriorated every month from January to June of this year.²

While the bill title suggests a reduction in inflation, it is unclear how this bill will ameliorate inflationary pressures or help improve business conditions for small business owners, particularly in the near term. In a preliminary analysis, "estimates are statistically indistinguishable from zero, thereby indicating low confidence that the legislation will have any impact on inflation."³

It is also unclear how nearly \$80 billion for additional Internal Revenue Service (IRS) funding will reduce inflation or provide better business expectations for Main Street, especially when the majority of the funding is allocated for enforcement, audits, and examinations over compliance assistance and resolving backlogs. The IRS is grappling with over 21 million unprocessed paper returns, an issue that is consistently reported to NFIB as major issue for many small business owners.⁴ This legislation's heavy focus on enforcement rather than resolving this tremendous backlog is a disservice to small businesses and taxpayers.

¹ Holly Wade, *Small Business and Inflation*, NFIB Research Center, July 2022, <https://assets.nfib.com/nfibcom/NFIB-Inflation-Survey-Questionnaire-June-July-2022.pdf>.

² William C. Dunkelberg and Holly Wade, *NFIB Small Business Economic Trends*, NFIB Research Center, July 2022, <https://assets.nfib.com/nfibcom/SBET-July-2022.pdf>.

³ University of Pennsylvania: Penn Wharton Budget Model, *Inflation Reduction Act: Preliminary Estimates of Budgetary and Macroeconomic Effects*, July 29, 2022, <https://budgetmodel.wharton.upenn.edu/issues/2022/7/29/inflation-reduction-act-preliminary-estimates>.

⁴ Taxpayer Advocate Service, *National Taxpayer Advocate Objectives Report to Congress, Fiscal Year 2023*, <https://www.taxpayeradvocate.irs.gov/reports/2023-objectives-report-to-congress/full-report/>.

In NFIB Research Center's March COVID-19 survey, 22% of members surveyed have attempted to contact the IRS for information related to their businesses in the last 12 months and 64% of these respondents reported that the experience was not helpful at all.⁵ Understanding small business owners reported federal business income taxes had the highest administrative burden in NFIB's most recent tax survey, this lack of helpful interaction is discouraging.⁶ Accordingly, it is disappointing this bill allocates only 4% of the billions in new IRS spending to "taxpayer services."

While the legislation's proponents argue the enhanced enforcement efforts will only affect wealthy tax cheats who frequently evade tax collectors, NFIB remains concerned that these efforts will negatively impact law-abiding business owners. As the vast majority of small business owners pay their businesses' taxes on their individual tax returns, small business owners could be ensnared by increased audits. Additional compliance burdens and responding to enforcement measures are indirect taxes on small business owners, requiring time and resources that are in short supply. A better approach for small businesses would be additional compliance assistance and customer service to help law-abiding small business owners avoid honest mistakes that would trigger an audit.

NFIB recognizes that many problematic provisions that would have directly harmed small businesses, including the creation of a new "Small Business Surtax" (expansion of the Net Investment Income Tax), elimination of stepped-up basis, higher personal and corporate tax rates, and increased fines and penalties at the Department of Labor have been removed from the legislation. However, NFIB is disappointed that unlike the House version of this legislation, the Senate version does not attempt to restore lower tax rates for small C-corporations. Moreover, NFIB has concerns that, as the Joint Committee on Taxation (JCT) analysis indicates, the new corporate book minimum tax created by this legislation will have downstream effects that could hurt the fragile small business economy.

Lastly, NFIB is disappointed that the Senate adopted an amendment offered by Senator Mark Warner (D-VA) that extends for two years Section 461(l) cap on losses a business owner is allowed to claim. Understanding the pressure Main Street businesses face within this challenging economic environment, adopting a policy that further limits Main Street businesses' ability to claim losses is ill-timed and unfortunate.

Sincerely,



Kevin Kuhlman
Vice President, Federal Government Relations
NFIB

⁵ Holly Wade, *COVID-19 Small Business Survey Part 22*, NFIB Research Center, March 2022, <https://www.nfib.com/content/press-release/coronavirus/new-nfib-covid-survey-inflation-pressures-and-lost-sales-opportunities-challenge-small-businesses/>.

⁶ Holly Wade, *NFIB 2021 Tax Survey*, NFIB Research Center, 2021, <https://assets.nfib.com/nfibcom/NFIB-Tax-Survey-Full-Report.pdf>.