

IMPORTANT SMALL BUSINESS TAX CHANGES OF PRESIDENT BIDEN'S INFRASTRUCTURE PROPOSAL

Wednesday, May 19, 2021

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Key Dates / Deadlines – 2021

March 31

- American Jobs Plan rolled out – taxes / physical infrastructure

April 28

- American Families Plan rolled out – taxes / human infrastructure

June 22-25

- NFIB virtual fly-in

July 31

- Expiration of debt limit

September 30

- Expiration of government funding & transportation funding



American Jobs Plan – Taxes / Infrastructure

- Policy – \$2.3 trillion physical and “care” infrastructure
- Corporate (C-corporations) tax rate
 - Increases corporate tax rate from 21% → 28%
- Labor – Protecting the Right to Organize (PRO) Act
 - Prohibits state right-to-work laws
 - Removes secret ballot & implements “card check” union elections
 - Requires disclosure of employees’ contact information during union campaigns
 - Allows secondary boycotts
 - Restores more expansive “joint employer” standard
 - Expands California’s strict ABC test for independent contractors



American Jobs Plan v. Small C-Corporations

- Pre-2018 graduated corporate tax rates:

Taxable Income	Corporate Tax Rate
\$0 – \$50,000	15%
\$50,001 – \$75,000	25%
\$75,001 – \$10,000,000	34%
Over \$10,000,000	35%

- 2018-present: **Flat 21% corporate rate**
- President Biden's proposal: **Flat 28% corporate rate**

American Jobs Plan v. Small C-Corporations

- 63% of C-corps <\$400,000 in business receipts
- President Biden's Jobs proposal:
 - Increases the corporate tax rate on small C-corps by 33%
 - Increase the corporate tax rate on the smallest C-corps by 87% relative to their 2017 tax rate

...And raising the corporate rate on small C-corps will do very little to raise tax revenue for the federal government.

American Jobs Plan v. Small C-Corporations

- **Real World Effects:** Allen McBride, owner of Camp Mac in Munford, Alabama, explains his concerns:

*"For decades, the first \$50k of profits for a c corp were taxed at 15%. We were lucky to have **\$50k of profits to plow back in the business.***

*When Congress cut taxes in 2017, we went from paying 15% in taxes to 21%. **That 25% "tax cut" for big business was a 40% tax increase for small businesses like us.***

*Now I understand they are considering **raising the 21% rate up to 25% or back to 28%.** That's almost double what we paid for years.*

*But, for a small business like us another tax increase, on top of the first tax increase, on top of a pandemic, **makes it almost impossible to compete.**"*

American Families Plan – Taxes / Human Infrastructure

- Policy – \$1.9 trillion
- Tax increases (individual- and family-owned business taxes)
 - Creates NEW taxes at death
 - Increases top marginal tax rate (37% → 39.6%)
- Labor mandates
 - Employer paid sick leave mandate (>15 employees)
 - Government paid family and medical leave mandate
 - Unemployment insurance stabilizers

AFP & Family Business – NEW Taxes at Death

- Current:
 - Top capital gains tax rate – 23.8%
 - Taxed when an asset is sold (Ex. farmland value appreciates over several years; pay capital gains taxes when sold)
 - **Stepped-up basis ensures that capital gains tax is not imposed when assets are transferred to surviving family members after the death of a loved one**
 - Estate tax – 40% rate with \$11.7 m exemption
- Proposed:
 - Top capital gains tax rate – 43.4%
 - Taxed at death (not when asset sold)
 - Stepped-up basis eliminated
 - Estate tax remains

AFP & Family Business – NEW Taxes at Death

Provision:	Current Policy:	Proposed Policy:
Stepped-up Basis	Ensures that capital gains tax is not imposed when assets are transferred to surviving family members after the death of a loved one.	Repeals stepped-up basis for transfers over \$1 million per individual after the death of a loved one.
Capital Gains Tax Rate	<p>Capital gains measure an asset's value over time. Top cap gains rate is 20% + 3.8% (net investment income tax) = 23.8%</p> <p>Taxed when an asset is sold. (Ex. farmland value appreciates over several years; pay capital gains taxes when sold.)</p>	<p>Proposes aligning the top cap gains rate to 39.6% + 3.8% (net investment income tax) = 43.4%</p> <p>Taxed when asset is sold and/or when family member dies.</p>
Estate Tax	For 2021, the threshold for federal estate taxes is \$11.7 million per individual. Over this threshold, the estate tax rate is 40%.	N/A

AFP & Family Business – Income Taxes

- Current:
 - 37% marginal tax rate
 - Taxable income \$523,000 (single) / \$628,300 (joint)
- Proposed:
 - 39.6% marginal tax rate
 - Taxable income \$452,700 (single) / \$509,300 (joint)
 - Marriage penalty: two married individuals with income exceeding \$255,000 each → 39.6%

AFP v. Family Businesses – Real World Effects

- Steve Ferree, owner of Mr. Rooter Plumbing Company of Portland, explains his concerns:

*“You have all these ups and downs as a business owner, **and the payoff at the end, your exit strategy basically, is when you go to finally retire and pass it on or sell it to somebody else.***

And by having additional death taxes or capital gains... you take away all that, where that payback finally comes, from all those years of reinvesting in your business.”

AFP v. Family Businesses – Real World Effects

- Jeanne Bell of Westside Finishing Company explains her concerns:

Westside Finishing Company powder coats the hand-dryer covers located in many restrooms. In 1985, the company started with painting about five to ten dryers every week, and now coat thousands of dryers every month. Since 1990, this family-owned business has grown an average of 11% per year.

“We’ve been worried about death taxes forever... it’s a third-generation business, so we have hired attorneys and accountants to help us with this tax planning. We want to make sure the business goes to him, and we don’t have to come up with a whole bunch of money to pay the death taxes when we pass.”

Tactics

- NFIB
 - Education
 - Communication – *Small Business Survival* campaign
 - Grassroots activation – Virtual Fly-In June 22-23
 - Lobbying
- WE NEED TO HEAR FROM NFIB MEMBERS!
 - Please fill out the survey!

Take Action!

Congress and President Biden **need to hear from you** how tax increases will impact your business and employees.



SAVE THE DATE!

2021 NFIB Virtual Fly-In

JUNE 22-23

Session topics will include

- Legislative issues briefing with live Q&A
- Putting your NFIB membership to use
- NFIB member-exclusive federal policy session with special guest(s)
- Insider's political briefing
- ... and more!



Have a question now? Contact us at flyin@NFIB.org



THANK YOU!

Be sure to check your email for our tax survey and action alert.

Questions

Grassroots@NFIB.org

Information

www.NFIB.com/taxes

