

SUMMARY

In determining how to move ahead on tax reform, policymakers should be aware that reform can have disparate effects on different participants in the economy. The three guiding principles of tax policy—efficiency, equity, and simplicity—provide a framework for evaluating policy choices. And some facts about US businesses can help guide the ongoing tax reform discussions:

- most businesses are small (traditional corporations and pass-through businesses);
- most economic activity takes place in larger enterprises (traditional corporations and pass-through businesses);
- pass-through businesses overlap with, but are not identical to, small businesses; and
- most income from pass-through businesses accrues to individuals at the top of the income distribution.

These facts, combined with the tax policy principles articulated, can help inform the policy debate and evaluate policy alternatives.

APPENDIX: RESPONSE TO QUESTION FOR THE RECORD

Question for Mr. Mark J. Mazur¹

Question from: Chairman Risch

On Section 179 Expensing for Small Businesses

Section 179 expensing allows a small business to immediately deduct the cost of investing in their business – up to \$500,000 of qualifying property and equipment each year. This deduction puts money back into the small business for investment rather than spreading the deductions out over a long depreciation schedule. Expensing also reduces tax complexity by eliminating the paperwork and record-keeping burden associated with longer depreciation periods.

QUESTION 1

In your testimony, you discussed Section 179 expensing and how small businesses use this deduction. You also mention a reexamination of this provision may be warranted to increase simplification and spur innovation: can you expand on this statement and discuss any concrete suggestions you have for this provision were it reevaluated?

RESPONSE

Section 179 expensing is an important incentive for capital investment made by smaller firms. It is also a source of simplification, because firms taking advantage of it do not need to keep track of accumulated depreciation and maintain records indicating the adjusted basis of their productive physical assets. Increasing the current law \$500,000 limitation to \$1 million (and indexing the amount for future inflation) would help ensure that smaller businesses can make significant capital investments in a tax-advantaged way and would expand the simplification benefits provided by Section 179 to these firms. In addition to increasing the limitation, increasing the dollar threshold on investment where the benefit begins to phase out from the current law \$2 million (indexed for inflation, so the value is \$2,030,000 in 2017) to a larger figure (such as \$3 million, also indexed for inflation) would ensure that more smaller firms can benefit.

¹ The views expressed are those of Mr. Mazur and should not be attributed to the Tax Policy Center, the Urban Institute, the Brookings Institution, their boards, or their funders.



The Tax Policy Center is a joint venture of the
Urban Institute and Brookings Institution.



BROOKINGS

For more information, visit taxpolicycenter.org
or email info@taxpolicycenter.org