

# SMALL BUSINESS TAX CUT ACT OF 2012

## The Small Business Tax Cut: Good News for Rhode Island

The best way to boost economic growth and get people back to work is through small business growth. Over the past 17 years, small businesses with fewer than 500 employees have generated 65% of the new jobs in this country.<sup>1</sup> Yet under the current tax code, small businesses are faced with enormous burdens that are sapping their capital. Irrespective of whether they pay taxes at the corporate or individual level, small businesses can face up to a 35% federal tax rate.

H.R. 9, the Small Business Tax Cut, will help small business owners retain more capital, invest in their businesses and create more jobs. Under the proposal, small businesses would be allowed to deduct 20% of their income from taxes irrespective of how they are organized, up to 50% of their W-2 wages (in some cases distributions made to partners may be treated as W-2 wages for these purposes). So, whether you are organized as a corporation or you are one of the 75% of small businesses that operate as a pass-through, you will benefit from this new deduction.

***How it Works:*** For simplicity, consider the example of a small business that under current law would pay a 35% federal tax on \$100 of income, resulting in a \$35 tax bill. Under the House Republican proposal, the small business would be able to deduct 20% of its income from tax (20% of \$100 = \$20), subject to the 50% W-2 wage limitation. The small business would then pay the same 35% tax on the remaining \$80, resulting in a \$28 tax bill. Under the House Republican proposal, the small business immediately saves \$7 in federal taxes.

The non-partisan Joint Committee on Taxation has estimated that H.R. 9 will benefit over 22 million small business employers across the United States reducing their taxes by almost \$46 billion. H.R. 9 is consistent with the budget plan just adopted by the House and was part of the Pledge to America.

### **What the Small Business Tax Cut Means for Rhode Island:**

As of 2009, in Rhode Island, there are 23,837 small businesses with between 1 and 500 employees employing 228,500 individuals.<sup>2</sup>

The top three industries by employment:

- Over 43,000 employees in health care and social assistance
- Over 31,000 employees in accommodation and food services
- Over 29,000 employees in manufacturing

--Over--

<sup>1</sup> Small Business Administration, Office of Advocacy. <http://www.sba.gov/sites/default/files/sbfaq.pdf>

<sup>2</sup> Small Business Administration, Office of Advocacy. 2011 Small Business Profile for the States and Territories. <http://www.sba.gov/advocacy/848/41391>

Of the small businesses in Rhode Island with between 1 and 500 employees:

- 2,782 are women-owned and they employ 20,244 individuals<sup>3</sup>

In addition to these small businesses, in 2009 Rhode Island was home to 61,631 sole proprietorships.<sup>4</sup> Many of these self-employed small businesses will also benefit from the 20% Small Business Tax Cut.

It is not just a cliché that getting small businesses growing again is the key to our economic recovery. Consider that:

- From 2005 to 2008, a net total of 4,490 small business jobs were lost in Rhode Island
- From 2008 to 2009 a net total of 13,559 small business jobs were lost.<sup>5</sup>

### **The Small Business Tax Cut is Supported By:**

Academy of General Dentistry  
American Academy of Pediatric Dentistry  
American Association of Oral Maxillofacial Surgeons  
American Association of Orthodontists  
American Dental Association  
American Wholesale Marketers Association  
American Supply Association  
Associated General Contractors  
Coalition of Franchisee Associations  
Dunkin' Donuts Independent Franchise Owners  
Independent Organization of Little Caesars® Franchisees  
Independent Electrical Contractors Brokers of America  
Small Business and Entrepreneurship Council  
Interlocking Concrete Pavement Institute  
International Sign Association  
Long John Silver's Franchisee Association  
National Association of Convenience Stores  
National Beer Wholesalers Association  
National Franchisee Association  
National Precast Concrete Association  
National Solid Waste Management Association  
World Golf Foundation  
Forging Industry Association  
North American Association of SUBWAY® Franchisees, Inc.

Acushnet  
American Academy of Periodontology  
Golf Course Superintendents Association of America  
American College of Prosthodontists  
American Truckers Association  
Americans For Tax Reform  
  
Burger King  
Club Managers Association of America  
EA Independent Franchisee Association, LLC  
Heating, Air-Conditioning & Refrigeration Distributors International (HARDI)  
Independent Insurance Agents & Hispanic Dental Association  
Industrial Fasteners Association  
International Franchise Association  
KFC  
National Association of Chemical Distributors  
National Association of Home Builders  
National Council of Chain Restaurants  
National Golf Course Owners Association  
National Ready Mixed Concrete Association  
National Stone, Sand and Gravel Association  
Professional Golfers Association of America  
Truck Renting and Leasing Association

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<sup>3</sup> U.S. Census Bureau. Survey of Business Owners. 2007. <http://www.census.gov/econ/sbo/#CBO>

<sup>4</sup> U.S. Census Bureau. 2009 Nonemployer Statistics. <http://censtats.census.gov/cgi-bin/nonemployer/nonsect.pl>

<sup>5</sup> Small Business Administration, Office of Advocacy. 2011 Small Business Profile for the States and Territories. <http://www.sba.gov/advocacy/848/41391>