

PROTECTING THE SMALL BUSINESS TAX DEDUCTION



RIGHT NOW:

Congress is considering a **\$147 billion tax increase** that reduces a **Small Business Tax Deduction**, which is currently utilized by the vast majority of restaurants. **Nine in 10** restaurants are small businesses, operating on thin margins, who cannot absorb significant tax increases.

The National Restaurant Association strongly opposes any tax increases on restaurants as they continue to face the economic effects of COVID-19.

What is the Small Business Tax Deduction?

Established in the same federal legislation that reduced the corporate tax rate from 35% to 21% in 2017, the Small Business Tax Deduction allows businesses to deduct up to 20% of their share of qualified business income (QBI) from taxable income. The QBI deduction ensures the tax code does not have significantly different rates for small businesses and corporations.

What is QBI? Generally, QBI is the business' net amount of income, gain, deduction, and loss.

How would Congressional legislation end the Small Business Tax Deduction as we know it? The Small Business Tax Fairness Act (S. 2387) significantly reduces the Small Business Tax Deduction for any business earning over \$400,000 in QBI.

- ✓ If this legislation becomes law, businesses will see an estimated **\$147 billion tax hike** in the next four years (2022 – 2025).
- ✓ Congress is also considering **new taxes** that could fall on small businesses and:
 - Raise the top individual tax rate from **37%** to **39.6%**
 - Lower the top tax rate threshold to **\$509,300**
 - Expand the application of the **3.8% surtaxes** (NIIT, SECA, HI) to all forms of business income, including LLCs and partnerships.

Restaurants must not face new tax burdens as they struggle to sustain operations during COVID-19.



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Is there bipartisan legislation to permanently preserve the Small Business Tax Deduction? **Yes** – the *Main Street Tax Certainty Act* (S. 480, H.R. 1381) makes the QBI deduction permanent under Section 199A as the Small Business Tax Deduction is scheduled to end by 2025.

- ✓ Reps. Henry Cuellar (D-TX), Jason Smith (R-MO), and Josh Gottheimer (D-NJ) introduced bipartisan legislation in the House with 79 additional cosponsors.
- ✓ Sen. Steve Daines (R-MT) introduced legislation in the Senate with 12 cosponsors.

Who Is Eligible for the QBI Deduction?

Most restaurants qualify for the small business tax deduction when they are considered “pass-through” entities, such as:

- ✓ Sole proprietorships
- ✓ LLCs
- ✓ Partnerships
- ✓ S-Corporations

Why Do Small Businesses Need the Tax Deduction?

- ✓ Preserve much-needed liquidity, as most restaurants operate with just 16 days of cash on hand.
- ✓ Ensure small businesses see tax rates on an equal footing with multinational corporations, known as “C-Corporations,” who operate under a 21% tax rate.

SMALL AND MID-SIZED COMPANIES NEED EXISTING TAX BENEFITS TO REMAIN COMPETITIVE WITH LARGER COMPANIES. WE ARE NOT OUT OF THE WOODS YET, AND WE STILL NEED THIS SUPPORT. ELIMINATING OR REDUCING THE 199A TAX DEDUCTION WILL HURT THOUSANDS OF SMALL & MID-SIZED OPERATORS LIKE OUR FAMILY-OWNED COMPANY WHEN WE NEED THEM THE MOST.

*Family Owned Restaurant
based in La Crosse, Wisconsin with
Locations throughout the Midwest*

RIGHT NOW, RESTAURANTS NEED ALL THE HELP WE CAN GET – NOT NEW TAX BURDENS. LOSING THE QBI DEDUCTION WOULD COST OUR BUSINESS UP TO \$120,000 IN A NORMAL YEAR. RESTAURANTS ARE VULNERABLE IN THE SMALL TO MIDSIZE CATEGORY BECAUSE AS PASS-THROUGH BUSINESSES, NEW TAXES ON INCOME PREVENT US FROM INVESTING IN HIRING, WAGES, REMODELING PROJECTS, AND GROWTH. WE URGE CONGRESS TO PRESERVE THE SMALL BUSINESS TAX DEDUCTION FOR QUALIFIED INCOME AND PREVENT ANY NEW TAX INCREASES.

*Second-Generation Restaurant Owner
Locations in Ohio and West Virginia*

WE HAVE NO PROBLEM PAYING OUR FAIR SHARE OF TAXES. BUT, IT IS UNREASONABLE TO PHASE DOWN A SMALL BUSINESS DEDUCTION AND INCREASE OUR TAX LIABILITY DURING A PANDEMIC. THIS DECREASES WORKING CAPITAL FOR EXPANSION, JOB CREATION, AND INVESTMENT AT A TIME WHEN TOO MANY RESTAURANTS ARE CARRYING DEBT AND SIMPLY TRYING TO SURVIVE.

Southern California Restaurateur