

# The Federal Tax Code: Small Business Provisions and Latinos

The “Tax Cuts and Jobs Act,” the latest tax bill from congressional Republicans, would result in a massive tax cut for the richest Americans and big corporations, while providing little, if any, tax relief to working- and middle-income families.<sup>1</sup> Corporations would see their rate drop from 35% to 20%, amounting to at least a \$1.5 trillion tax cut. However, the tax plan would do almost nothing for small businesses, which are the primary drivers of job creation: since 2009, small businesses have created two out of every three new private sector jobs.<sup>2</sup>

Nationally, there are 4.37 million Latino-owned businesses, generating \$700 billion in revenue.<sup>3</sup> They are growing two to three times faster than the national average, standing to create millions of private sector jobs.<sup>4</sup> Between 2012 and 2017, the number of Latino-owned businesses increased nearly 32% compared to a 13.8% growth rate overall.<sup>5</sup>

Instead of helping these economic engines thrive, the Republican tax proposal would heavily benefit businesses like private equity firms, hedge funds, and real estate developers.<sup>6</sup> Revenue lost through these massive tax cuts would explode the deficit and lead to devastating cuts in spending on important programs like health care, nutrition, education, and housing, jeopardizing the well-being of Latino families.

## What About Changes to the Tax Code?

The most expensive provision of the Republican tax bill would reduce the corporate tax rate from 35% to 20%, leading to a loss of \$1.3 trillion dollars in revenue over a decade. These benefits would go directly to large corporations.<sup>7</sup> The bill would also repeal the alternative minimum tax (AMT), which, along with regular income tax, is a measure to determine tax liability. The AMT is used by both individuals and corporations. The corporate AMT rate is 20%, with an exemption allowed. Repealing the AMT would cost \$40.3 billion over 10 years.<sup>8</sup>

One provision of the Senate bill would reduce the rate at which pass-through businesses are taxed, which has been touted misleadingly as a boon for small businesses. Unlike traditional

corporations who are subject to a business income tax, pass-through businesses—sole proprietorships, partnerships, limited liability companies, and S corporations—pay taxes at the regular income tax rate, up to 39.6%. The Senate bill allow a 17.4% deduction for qualifying pass-through income, theoretically creating a maximum pass-through income rate of 31.8%.<sup>9</sup> This reduction would cost \$362 billion over a decade.<sup>10</sup>

## Will Latino-Owned Businesses Benefit?

Unfortunately, the majority of the changes to the tax code that impact businesses will not help Latino-owned companies. UnidosUS estimates that in 2018, 86% of all Latino-owned businesses would see no net increase in after-tax income from the Senate bill.<sup>11</sup> Under the provisions of the Senate Republican tax bill:

- Ninety percent (more than four million) of Latino businesses would receive no benefit from the proposed corporate tax reductions. Most Latino businesses are sole proprietorships, so reducing corporate taxes would not impact these businesses.<sup>12</sup>
- In 2018, one in three Latino-owned businesses would see a meager \$20-30 tax reduction, but those same businesses would experience a tax increase above current levels in 2027.
- By 2027, three in four Latino businesses will face tax increases due to the expiration of the increase in the standard deduction and from using chained CPI.<sup>13</sup>
  - Taxes will increase by at least \$10,000 for more than three million Latino-owned business from expiration of tax reductions or loss of tax benefits.<sup>14</sup>

Congress should oppose a tax agenda that disproportionately benefits large corporations and high-profit businesses. Instead of providing trillions in tax cuts for the richest Americans and large corporations, Congress should ensure small businesses are able to take advantage of a tax code that helps them create jobs, innovate, and grow.

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All sources accessed November 2017.

<sup>1</sup> Senate Finance Committee, “Tax Cuts and Jobs Act, Chairman’s Mark,” November 16, 2017, <https://www.finance.senate.gov/imo/media/doc/11.19.17%20Section%20by%20Section%20--%20FINAL1.pdf> and TPC Staff, *Distributional Analysis of the Tax Cuts and Jobs Act as Passed by the Senate Finance Committee*, (Washington, DC: Tax Policy Center, 2017), <http://www.taxpolicycenter.org/publications/distributional-analysis-tax-cuts-and-jobs-act-passed-house-ways-and-means-committee/full>.

<sup>2</sup> Bureau of Labor Statistics, “Business Employment Dynamics,” <https://www.bls.gov/bdm/>.

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- <sup>3</sup> Geoscape and U.S. Hispanic Chamber of Commerce, *Hispanic Businesses and Entrepreneurs Drive Growth in the New Economy*, (Miami, FL: Geoscape and USHCC, 2017), [http://geoscape.com/wp-content/uploads/2017/09/HBR-Final-Report\\_2017.pdf](http://geoscape.com/wp-content/uploads/2017/09/HBR-Final-Report_2017.pdf).
- <sup>4</sup> Douglas Rivers, et al., *State of Latino Entrepreneurship, 2016*, (Stanford, CA: Stanford Graduate School of Business, 2016), <https://www.gsb.stanford.edu/faculty-research/publications/state-latino-entrepreneurship-2016>.
- <sup>5</sup> Ibid.
- <sup>6</sup> Steven Rosenthal, “The 25-Percent Rate for Pass-Through Businesses Helps Rich Investors, Not ‘Small’ Businesses,” November 8, 2017, *Tax Policy Center*, <http://www.taxpolicycenter.org/taxvox/25-percent-rate-pass-through-businesses-helps-rich-investors-not-small-businesses>.
- <sup>7</sup> Joint Committee on Taxation, *Estimated Revenue Effects of the “Tax Cuts and Jobs Act,” ordered reported by the Committee on Finance*, report prepared by the Joint Committee on Taxation, 115th Cong., 1st sess., 2017, <https://www.jct.gov/publications.html?func=startdown&id=5043>.
- <sup>8</sup> Ibid.
- <sup>9</sup> Joseph Rosenberg, “The Senate Tax Bill Would Impose High Marginal Tax Rates on Some Pass-Through Owners,” November 27, 2017, *Tax Policy Center*, <http://www.taxpolicycenter.org/taxvox/senate-tax-bill-would-impose-high-marginal-tax-rates-some-pass-through-owners>.
- <sup>10</sup> Joint Committee on Taxation, *Estimated Revenue Effects of the “Tax Cuts and Jobs Act,” ordered reported by the Committee on Finance*.
- <sup>11</sup> UnidosUS calculations and calculations using Tax Policy Center, “Model Estimates,” Table T-17-0166, May 15, 2017, <http://www.taxpolicycenter.org/model-estimates/options-taxing-pass-through-income-preferential-rates-may-2017/t17-0166-distributional>.
- <sup>12</sup> UnidosUS calculations using data from U.S. Census, “Survey of Business Owners (SBO) - Survey Results: 2012,” February 23, 2016, *U.S. Census Bureau*, <https://www.census.gov/library/publications/2012/econ/2012-sbo.html> and Douglas Rivers, et al., *State of Latino Entrepreneurship, 2016*.
- <sup>13</sup> UnidosUS calculations and calculations using Chye-Ching Huang, Guillermo Herrera, and Brendan Duke, “JCT Estimates: Amended Senate Tax Bill Skewed to Top, Hurts Many Low- and Middle-Income Americans,” November 27, 2017, *Center on Budget and Policy Priorities*, <https://www.cbpp.org/research/federal-tax/jct-estimates-amended-senate-tax-bill-skewed-to-top-hurts-many-low-and-middle>.
- <sup>14</sup> UnidosUS calculations and calculations using Congressional Budget Office, “Reconciliation Recommendations of the Senate Committee on Finance,” November 26, 2017, *Congressional Budget Office*, <https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/reconciliationrecommendationssfc.pdf>.