MARCH 2018

Tax Cuts and Jobs Act: Impact on Latino-Owned Businesses

In December 2017, Congress passed and President Trump signed the "Tax Cuts and Jobs Act" (TCJA) into law. The new law is a massive tax cut for the richest Americans and big corporations, without significant and lasting tax relief for working families.[1] The corporate tax rate decreased from 35% to 21%, but the tax law 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.[2]

Nationally, there are 4.37 million Latino-owned businesses, generating $700 billion in revenue.[3] They are growing two to three times faster than the national average, standing to create millions of private sector jobs.[4] Between 2012 and 2017, the number of Latino-owned businesses increased nearly 32% compared to a 13.8% growth rate overall.[5] Instead of helping these economic engines thrive, the TCJA will heavily benefit large corporations, private equity firms, hedge funds, and real estate developers.[6]

How Will the TCJA Impact Latino-Owned Businesses?

Unfortunately, the majority of the changes to the tax code that impact businesses will not help Latino-owned companies. This is because 90% of Latino-owned businesses (more than four million) are not corporations and therefore will not benefit from the reduction in the corporate tax rate.[7] While the corporate tax cuts in the TCJA are permanent, provisions that would benefit small business owners—changes to the individual tax code—will expire after 2025.

By 2027, under the TCJA:

- Almost half (2.1 million) of Latino businesses will face tax increases due to the expiration of most of TCJA's provisions.[8]
- More than 3.2 million Latino businesses (three in four) will lose an average of $300 in after-tax income.[9]

All sources accessed January 2018.

[1] Institute on Taxation and Economic Policy, "Table 1: Impact of the Final GOP-Trump Tax Bill in the United States in 2019 and 2027," https://itep.org/wp-content/uploads/trumpbillfinal_nationaltables.png.

[2] Bureau of Labor Statistics, "Business Employment Dynamics," https://www.bls.gov/bdm/.

[3] 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.

[4] 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.

[5] Ibid.

[6] 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.

[7] 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*.

[8] 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.

[9] 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.