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Annette Nellen, CPA, CGMA, Esq., chair of the [American Institute of CPAs](#)' (AICPA) Tax Executive Committee, [testified](#) today about the effect of various tax reform proposals on America's small business owner-operators at a hearing titled *Tax Reform: Removing Barriers to Small Business Growth*, which was conducted by the Senate Committee on Small Business and Entrepreneurship.

"First, tax relief should not mean a rate reduction for C corporations only," Nellen testified. "Congress should continue to encourage, or at least not discourage, the formation of sole proprietorships and pass-through entities. If Congress decides to lower corporate income tax rates, small businesses should receive a lower tax rate as well," she said.

A reduced tax rate for income of small businesses would place additional pressure on the need to distinguish between profits of the business and compensation of the owner-operators, Nellen noted. "We should continue to use traditional definitions of 'reasonable compensation' for this purpose," she said. "Partnerships and sole proprietorships should be required to charge reasonable compensation. We should not treat partners and proprietors as 'employees,' but rather as owner-operators whose labor is subject to appropriate withholding taxes."

Nellen emphasized that no new limits on the use of the cash method of accounting should be imposed. "The cash method is simpler in application, has fewer compliance costs, and does not require taxpayers to pay tax before receiving their income, which is why entrepreneurs often choose this method," she testified.

“Forcing more businesses to use the accrual method, unnecessarily discourages

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Other business tax reform changes that Nellen identified as important include increasing the startup business deduction, repealing the alternative minimum tax for individuals and corporations and simplifying the tax rules for such things as qualified retirement plans. “Small business owners must deal with many business decisions and concerns. They have expertise in their business products and services, but rarely are they experts in areas such as capitalization, retirement plan rules and alternative tax regimes,” she testified.

Nellen also urged committee members to support creation of a new practitioner services unit at the IRS that offers an online tax professional account with access to clients' information as part of a modernization of IRS business practices and technology. “Enhancing the relationship between the IRS and practitioners benefits both the IRS and the millions of taxpayers, including small businesses, served by the practitioner community,” Nellen said.

Small Business • Technology

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