November 25, 2013

Chairman Dave Camp  
House Committee on Ways and Means  
Washington, DC 20515

Ranking Member Sander Levin  
House Committee on Ways and Means  
Washington, DC 20515

Dear Chairman Camp and Ranking Member Levin,

We write to commend you on your ongoing, bipartisan efforts to reform the federal tax code. The tax code as it currently stands is a significant hurdle to economic growth. Making the tax code simpler, fairer, and more efficient will create an environment conducive to the growth of small business and benefit workers and consumers. It is our hope that this Congress moves towards a reformed tax code that ensures a globally competitive American marketplace.

On March 12, 2013, the House Ways and Means Committee released a tax reform discussion draft, which included a number of proposals for changing the taxation of small businesses and pass-through entities. As you move forward with tax reform, we want to ensure that every issue and concern is heard and fully vetted for the benefit of our country’s main source of new job creation. We support the committee’s efforts and urge its members to consider the negative ramifications the proposed accounting changes may have on many of the small businesses that drive our local economies.

Specifically, Subtitle B of Title II of the draft, entitled Tax Reform Act of 2013, sets new limits on the ability of pass-through entities, professional service firms, and farms to use the cash basis method of accounting. Currently, the cash method is generally available for C corporations with less than $5 million in average annual gross receipts, and for individuals, partnerships of individuals, S corporations, professional service corporations, and most farming businesses regardless of size. The cash method of accounting has long been recognized as a simple and appropriate manner in which to tax both individuals and the many businesses that are taxed at the individual rate.

The tax reform draft would move many of the aforementioned businesses to the accrual method of accounting. The accrual method of accounting, while appropriate for large C corporations with inventory, would be unnecessarily complex and financially burdensome for many of the businesses not currently using this method.

The draft does take the encouraging step of raising the current cap on gross receipts from $5 million to $10 million. This is an acknowledgement of the benefits of the cash accounting method for small businesses, and it will allow some C corporations with annual receipts between $5 and $10 million to use the cash accounting method for the first time. While one may say that subjecting all businesses to the same $10 million threshold will “simplify” the tax code, we believe this change may in fact make compliance more complex and create a disincentive for growth. For many small businesses, mitigating the one-time costs of switching accounting
methods would be extremely difficult, as would the continued use of the more complex accrual method of accounting.

Pass-through entities account for more than 90 percent of all business entities in the United States and are represented across a diverse range of business professions and sectors. These include many of the small businesses that act as drivers of growth throughout our country and are trusted partners in our local communities. Across sectors, small business owners are concerned at the possibility of complying with a more complex accounting system that requires them to report income before they receive the cash. Farms, trucking businesses, restaurants, doctors, dentists, accounting firms, lawyers, and engineers are just a small number of the types of concerned businesses that are voicing their concerns to their respective Representatives. The economic uncertainty of this proposed change may inhibit growth, with many businesses worried that expansion, either through internal growth or merger with similar entities, may place them over the proposed $10 million gross receipts level.

For farmers and ranchers, cash accounting is crucial due to the number and enormity of up-front costs and the uncertainty of crop yields and market prices. A heavy rainfall, early freeze, or sustained drought could devastate an agricultural community, and farmers need to be able to buy land, equipment, and inputs when they have income in hand, not when their books say they have earned it. Farmers and ranchers also need the flexibility and simplicity of cash accounting to manage their tax burden by evening out annual revenues that can greatly differ from one year to the next.

Your current effort to reform the nation’s tax code is much needed and greatly appreciated, and it is our shared goal to simplify and reform the tax code into one that enables growth and competitiveness while reducing the cost of compliance and maintaining fairness. With this in mind, we urge you to consider the ramifications the proposed change of limiting the use of cash accounting may have on small businesses and local economies.

Thank you for considering our concerns, and we look forward to working with you on this important issue.

Sincerely,

Mike Quigley
Member of Congress

Blaine Luetkemeyer
Member of Congress

Bradley Schneider
Member of Congress

Richard Hudson
Member of Congress
Patrick Murphy
Member of Congress

Richard Neal
Member of Congress

Kristi L. Noem
Member of Congress

Alan Nunnelee
Member of Congress

William L. Owens
Member of Congress

Steven M. Palazzo
Member of Congress

Ed Perlmutter
Member of Congress

Gary C. Peters
Member of Congress

Scott H. Peters
Member of Congress

Mike Pompeo
Member of Congress

Martha Roby
Member of Congress

Thomas J. Rooney
Member of Congress

Allyson Schwartz
Member of Congress

Terri A. Sewell
Member of Congress