



Testimony
of Taylor Peake Wyatt
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On

“Small Business Tax Reform: Modernizing the Code for the Nation’s Job Creators.”

before the
U.S. House of Representatives Small Business Committee

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Executive Summary

Chairman Chabot, Ranking Member Velázquez, and distinguished members of the Committee, thank you for the opportunity to testify on **H.R. 3717, the Small Business Owners' Tax Simplification Act**. My name is Taylor Peake Wyatt, and I founded MotionMobs seven years ago. We are a custom software consulting and development firm, specializing in mobile and web applications. As both an entrepreneur and a consultant for small businesses, including startups in the sharing economy, I can speak to many of the provisions in this bill and the impacts they could have for my own business and small companies across the nation.

In my experience, the tax code is overly complicated. Our team at MotionMobs has written software with payment processing components designed to calculate tax liability on purchases made across state lines. The component of these applications dedicated to determining sales tax liability by itself is overly complicated and illustrative of the need to simplify things.

Small businesses create about 64% of new private sector jobs. Yet the tax code is not user-friendly for small and medium-sized companies. Like most companies under ten employees, we don't have a department or even a person dedicated to tax filings. Making the process of paying taxes user-friendly is very important, and this legislation would be a good step in that direction.

The purposes of H.R. 3717 as I understand them are to modernize, clarify, and simplify tax provisions that apply to small businesses. These are laudable goals and I hope that broader tax reform includes measures like the ones in H.R. 3717 to achieve them.

A few provisions stand out, based on my experience. First, section 5 of the bill requires the Internal Revenue Service (IRS) to perform a test to determine that a bank account belongs to the proper taxpayer before depositing a return. Because tax fraud is rampant, the IRS depositing a refund in the wrong account is unfortunately common. Reclaiming the funds deposited in the wrong account takes a great deal of time and resources, which for a small business are especially scarce. In one instance a few years ago, I received a notice of deposit that was incorrect. Somehow, it was corrected on its own, but if it hadn't been, I know I would have had to dedicate significant time and resources to ensuring the right amount was deposited. This provision would help ensure that others can avoid draining resources to rectify incorrect deposits.

Second, the extension of cafeteria plan benefits to small business owners in section 6 is a welcome proposal. Too many small business owners are reluctant to take on cafeteria plans when anyone with enough of an ownership stake does not qualify. Within our company, approximately half of our team does not qualify. Availability of these plans would give small business owners another means of covering healthcare costs so that they can focus on their businesses.

Third, the provisions in the legislation clarifying that certain activities by sharing economy platforms do not have an effect on worker classifications are a good start. Workers and companies alike should clearly understand the impacts of their activities on classification. My partners and I are starting a software-driven property management company and are faced with this exact issue. We are contemplating the appropriate mix of independent contractors and employees for our team, and clarity in the tax code in this regard would be very helpful. More can be done to clarify workers' status, however. For example, the bill could clarify that mandatory (but minimal) training covering aspects that are core to the functioning of the business—but outside the scope of the worker's vocation—also do not affect a worker's classification. Such a provision would be consistent with the purpose of the legislation to provide certainty. However, it should be drafted in a way that does not allow a company to impose employer-like obligations on an independent contractor such that he or she should ultimately be considered an employee.

Thank you again for the opportunity to testify, and I look forward to an important discussion on simplifying, clarifying, and modernizing the tax code for small businesses.

I. Simplification

Sec. 2. Adjusts quarterly reporting deadlines to match actual quarter ends. Over the years, business practices have evolved and modern businesses report their earnings on a different schedule than the one that exists in the tax code. This provision brings IRS tax reporting deadlines in line with current accounting practices. I believe it would be a common-sense reform to simplify the reporting process for small businesses.

Sec. 3. Aligns income tax thresholds in IRS forms for consistency. Form 1099-k and 1099-MISC are supposed to report similar types of income. However, since they were enacted at different times, the threshold income amounts they use aren't the same. The rounding amounts aren't the same either. This provision would bring them both in line, so that both have a threshold of \$1,500 to trigger the reporting requirement and providing that any reported amount that is not a multiple of \$100 shall be rounded to the nearest multiple of \$100. This is another rational provision that is easy to support and I hope that it is included in broader tax reform.

II. Modernization

Sec. 4. Requires e-Signature updates. The Treasury Department has not issued guidance regarding acceptable e-signatures on tax returns. Yes, TurboTax provides an e-signature option. However, small businesses that file don't have assurance that the e-signature method they use is acceptable by Treasury standards. The provision requires the Treasury to issue guidance so that small businesses can be assured that the Treasury will accept the e-signatures they use on their tax returns. This is a reform that costs nothing and would provide a benefit at the margins in the form of certainty for small businesses.

Sec. 5. Requires pre-notification testing of recipient information before direct deposit of returns. Unfortunately, IRS refunds go to the wrong direct deposit far too often. Fraud is often to blame for these instances, but it could also be the result of honest mistakes. The problem can be avoided if the IRS notifies the entity that *should* receive the refund first to verify they are who they say they are—*before* the direct deposit is made. Clawing back a direct deposit made to the wrong entity is very cumbersome, especially for small businesses. Pre-notification testing is a simple and low-cost way of avoiding mistakes that are disproportionately costly for small businesses to rectify.

Sec. 6. Allows small business owners to participate in cafeteria accounts. Under current law, small business owners may offer cafeteria plans to their employees, such as dental plans, HSAs, and other accounts with tax advantages. However, these owners may not participate themselves. When a business owner cannot use a cafeteria plan, they often decline to offer them to any employees they bring on, often because additional employees in a small business have an ownership stake. Although this reform may impose a cost in the short run, I believe it would be an important update to the law for small business entrepreneurs who produce the bulk of job growth across the nation.

Sec. 7. Excludes net earnings less than amount required for Social Security coverage. Under current law, self-employment income is not counted as net earnings for tax purposes if it is under \$400. This provision would increase the \$400 amount to equal the amount required to qualify for “a quarter of coverage” for Social Security purposes (and 40 quarters are needed to qualify for Social Security). Currently, a person must earn \$1,300 to qualify for one quarter of credit for Social Security purposes, so this provision would increase from \$400 to \$1,300 the threshold amount for net earnings for it to be untaxed. The tax code abounds with benefits and exclusions for large corporations—this modest update for small businesses would be a welcome reform.

Sec. 8. Allows business owners to deduct healthcare expenses. This provision removes the exception for business owners from the broadly applicable healthcare expense deduction. Small businesses in Alabama often do not offer full coverage for their employees and families. Exorbitant healthcare costs are compounded when business owners must add taxes on those expenses to their balance sheets. We at MotionMobs are fortunate to be able to foot the bill for our employees’ and co-owners’ healthcare plans, but the expenses are painful to say the least. I have observed that other small businesses in Alabama are not so fortunate and it seems that most are unable to cover full healthcare costs (including family coverage) for their employees. The tax on these expenses is money that could and should be spent elsewhere and I strongly support this provision.

III. Clarification

Sec. 9. Allows a company to withhold certain amount from a payroll paycheck without impacting a worker’s classification. This provision would enable a sharing economy platform to provide withholding without accidentally becoming an “employer,” thus encouraging beneficial practices without sacrificing flexibility of a sharing platform. I am preparing to launch a software-driven property management company, and I have not decided yet whether to hire certain workers as employees or retain them as contractors. Knowing definitively whether withholding will have an impact on my workers’ status is important.

Sec. 10. Allows a company to provide voluntary training services without impacting a worker's classification. The provision would enable a sharing economy platform to provide trainings without accidentally becoming an "employer," thus encouraging beneficial practices without sacrificing flexibility of a sharing platform. Similar to Section 9, this provision would be helpful for me. As I determine whether a worker is an employee or a contractor, I need to be confident that this decision does not inadvertently come undone. I will likely provide training for my workers for the software platform we use, and knowing for sure that voluntary training programs do not impact employment status would help provide some stability. I should note, however, that training my contractors and employees to use the software platform may be mandatory. Knowing how to use the platform, regardless of whether workers are independent or employees, will be crucial to the company's and the workers' success. It may be that the drafters of this legislation wish to avoid addressing mandatory training with respect to the core aspects of a worker's occupation. I tend to agree that mandatory training for maintenance activities could weigh in favor of a worker being an employee rather than a contractor. However, I suggest that the Committee consider adding a provision to the legislation clarifying that mandatory (but minimal) training covering aspects that are core to the functioning of the business—but outside the scope of the worker's vocation—also do not affect a worker's classification. Such a provision would be consistent with the purpose of the legislation to provide certainty. However, it should be drafted in a way that does not allow a company to impose employer-like obligations on a worker such that he or she should ultimately be considered an employee.

IV. Conclusion

For too many small business owners like myself, the tax code is out of date and difficult to access and navigate. Many of the provisions in this bill are common-sense updates. I believe the most important provisions are those that help defray healthcare tax liability; clarify workers' status; and simplify the process of paying taxes for small businesses. I strongly encourage this Committee to ensure that these provisions are adopted in any tax reform package that has a reasonable chance at becoming law and hope I can be a resource on these issues going forward.