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Tax Reform and the Potential Negative Impact for Small Business

Ill-advised qualified retirement plan provisions combined with a lack of understanding of the impact of business income to individuals owning pass-through entities in recent tax reform proposals could signal an economic train wreck for America's small businesses and their employees.

This chapter will analyze the various tax reform proposals being debated by Congress and their potential impact on small business. We will discuss in detail qualified retirement plan provisions contained in some of the major proposals and illustrate how they could bring a successful system to a halt, harming the retirement security of many small business employees. The chapter will also review the extent of the small business retirement system's success and how the oft-cited coverage numbers are not only incorrect but are being used deliberately to undermine the system for short-term revenue. The impact of tax reform on Sub-S corporations will also be analyzed.

[1] General Principles of Tax Reform: Momentum and Disagreement In this era of partisan division, the assertion that the Internal Revenue Code (the "IRC" or "tax code") is too complicated and in grave need of revision or reform is one of the few points to garner consensus across political spectrum. 1 The last major piece of tax reform legislation was passed nearly thirty years ago in the form of the 1986 Tax Reform Act. Since that time, the IRC has grown into the behemoth of 73,954 pages that it is today. 2 Unfortunately, while there is broad agreement that something must be done, the accord stops there. Proposals as to what should be done to reform the tax system range dramatically and frequently contradict one another. As a whole, the Democratic lawmakers generally favor tax reform options that would raise revenues, while the Republicans advocate a revenue neutral approach to tax reform that results in lower tax rates.

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