112TH CONGRESS
2d Session

HOUSE OF REPRESENTATIVES

REPORT
112–425

SMALL BUSINESS TAX CUT ACT

APRIL 10, 2012.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. CAMP, from the Committee on Ways and Means, submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 9]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 9) to amend the Internal Revenue Code of 1986 to provide a deduction for domestic business income of qualified small businesses, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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AMENDMENT

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the “Small Business Tax Cut Act”.

19–006

JCT has determined that the bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

The CBO staff contact for this estimate is Kalyani Parthasarathy. The estimate was approved by Frank Sammartino, Assistant Director for Tax Analysis.

D. Macroeconomic Impact Analysis

In compliance with clause 3(h)(2) of rule XIII of the Rules of the House of Representatives, the following statement is made by the Joint Committee on Taxation with respect to the provisions of H.R. 9: the effects of the bill on economic activity are so small as to be incalculable within the context of a model of the aggregate economy.

The bill will potentially have small, temporary stimulative effects. It will temporarily increase after-tax income for the owners of certain firms with fewer than 500 employees, enabling these taxpayers to increase their purchase of goods and services. Because the economy is currently operating at less than full employment, this additional demand is likely to have a temporary stimulus effect, resulting in a small increase in real Gross Domestic Product ("GDP") during the time the provision is in effect (in 2012 and for some taxpayers part of 2013, depending on their taxable year). The size of this stimulus effect depends on how much of the after-tax income the business owners choose to spend, which is uncertain. The size of the tax reduction ($45.9 billion) is quite small relative to the size of the economy (0.003 percent of projected GDP in 2012), which means the stimulus effect will also be quite small. As the tax reduction expires, the stimulus effect also expires.

In addition, the bill provides an incentive to shift profits to the period when they are taxed at lower effective rates. Firms have an incentive to shift sales, and, if necessary, commensurate production and employment, into the period of the tax deduction. However, this incentive is partially offset by associated adjustment costs, such as additional overtime or hiring costs, and additional wear and tear on equipment. The formula for determining the amount of the business deduction makes it possible for firms to maximize the deduction bonus without increasing output. Firms might not need to increase their productive capacity to take full advantage of the tax benefits of the bill. To the extent that firms could increase sales and or payroll to take advantage of the extra deduction without increasing longer-term costs, they can be expected to do that. Thus, the bill is likely to result in some acceleration of sales into the current taxable year, but very little change in output over the budget period.

The temporary nature of the bill significantly limits incentives it might otherwise provide for a direct increase in production by the affected firms. Generally, a longer-term reduction in taxation of business profits of the type that is provided for only one year in this bill would increase the rate of return to production, thus providing businesses with an incentive to increase investment and output. However, the one year of tax savings provided by the bill is unlikely to make the costs of much investment in physical capital or labor recruitment and training worthwhile.

The increase in the deficit as a result of the bill may slightly increase long-term interest rates. In the near term, this effect is likely to be negligible both because the economy is currently operating below capacity, and because the Federal Reserve Board has announced an intention to keep interest rates low through 2014. Because the provision is temporary, there is no offsetting permanent increase in after-tax capital returns. Thus, the incentive for long-term capital investment is reduced in the future, putting slight downward pressure on economic growth.

V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. Committee Oversight Findings and Recommendations

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was as a result of the Committee's review of the provisions of H.R. 9 that the Committee concluded that it is appropriate to report the bill, as amended, to the House of Representatives with the recommendation that the bill do pass.

B. Statement of General Performance Goals and Objectives

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that the bill contains no measure that authorizes funding, so no statement of general performance goals and objectives for which any measure authorizes funding is required.

C. Information Relating to Unfunded Mandates

This information is provided in accordance with section 423 of the Unfunded Mandates Reform Act of 1995 (Pub. L. No. 104–4).

The Committee has determined that the reported bill does not contain any Federal private sector mandates within the meaning of Public Law No. 104–4, the Unfunded Mandates Reform Act of 1995. The costs required to comply with each Federal private sector mandate generally are no greater than the aggregate estimated budget effects of the provision.

The Committee has determined that the revenue provisions of the bill do not impose a Federal intergovernmental mandate on State, local, or tribal governments.

D. Applicability of House Rule XXI 5(b)

Clause 5(b) of rule XXI of the Rules of the House of Representatives provides, in part, that "A bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase may not be considered as passed or agreed to unless so determined by a vote of not less than three-fifths of the Members voting, a quorum being present." The Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not involve any Federal income tax rate increases within the meaning of the rule.