TESTIMONY

Statement of

Jane G. Gravelle
Senior Specialist in Economic Policy

Before

Committee on Small Business
U.S. House of Representatives

Hearing on

"Is the Tax Cuts and Jobs Act a Help or Hindrance to Main Street?"

July 24, 2019

Congressional Research Service
https://crsreports.congress.gov
TE10036

Introduction

Madame Chairwoman and Members of the Committee.

Thank you for the invitation to discuss the issue of the effect on small business of the December 2017 tax revision (the "Act") popularly known as the Tax Cuts and Jobs Act.[1]

The Act was estimated to reduce taxes by almost $1.5 trillion over 10 years.[2] It included individual tax cuts scheduled to expire after 2025, such as tax rate reductions and a 20% deduction for certain income of pass-through businesses (proprietorships, partnerships, and Subchapter S corporations that elect to be treated as proprietorships and partnerships). The deduction is phased out at higher incomes. However, if the pass-through business does not provide personal services and meets and pays sufficient wages or holds sufficient assets, the deduction is allowed at higher incomes. The Act included a permanent rate reduction for corporations (from 35% to 21%) and a variety of tax changes affecting business taxable income, such as a temporary provision allowing full expensing (immediate write-off rather than depreciation deductions over a period of time) for equipment. For FY2018, the Act was estimated by the Congressional Budget Office to reduce individual taxes by $65 billion and corporate taxes by $94 billion;[3] $28 billion of the individual revenue loss (as estimated by the Joint Committee on Taxation) was due to the 20% pass-through deduction.

Aside from the 20% deduction for pass-throughs, other provisions directly beneficial to small businesses are a permanent increase in the amount of equipment that can be deducted immediately and an increase in the scope of cash accounting. Provisions that raise taxes include eliminating graduated corporate tax rates, eliminating carryback of losses, ending the production activities deduction, limiting the meals and entertainment deduction, and disallowing the employee transportation and parking deduction.

On the whole, the tax cut can affect small businesses through two different mechanisms: (1) an increase in overall economic growth that increases demand for their products and (2) a decrease in tax burdens on investing in and operating their businesses.

Overall Economic Growth

Economic growth can occur through a short-run effect that increases the demand for consumer goods by individuals and investments by firms. Longer-term economic growth would arise from investment, but any incentive effects increasing investment would likely be offset by crowding out from increased deficits.

[1] The original title of the law, the Tax Cuts and Jobs Act, was stricken before final passage because it violated what is known as the Byrd rule, a procedural rule that can be raised in the Senate when bills, such as the tax bill, are considered under the process of reconciliation. The actual title of the law is "To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018." For more information on the Byrd rule, see CRS Report RL30862, *The Budget Reconciliation Process: The Senate's "Byrd Rule"*, by Bill Heniff Jr.

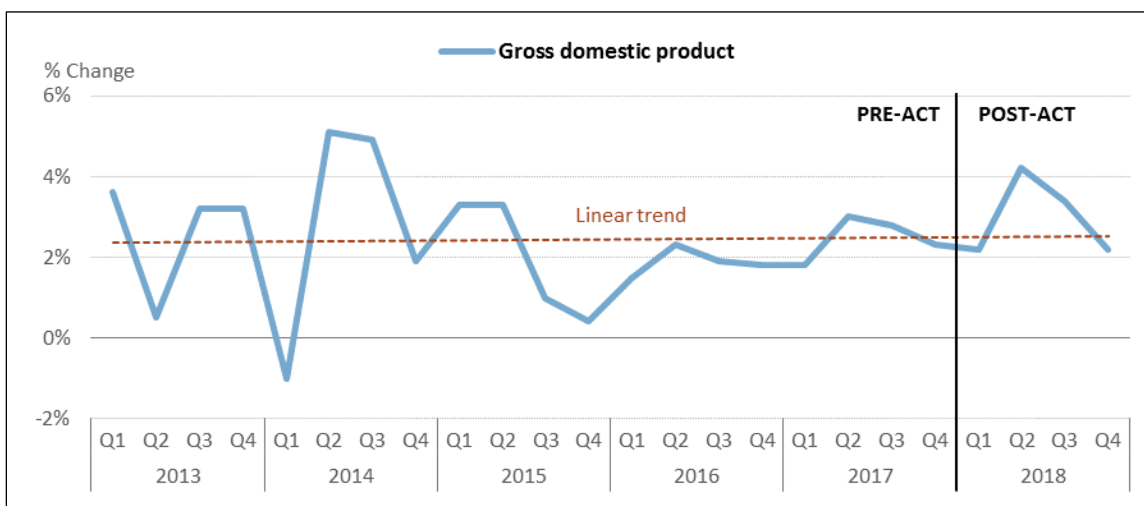
[2] This revenue cost is without macroeconomic feedback effects and does not include interest costs. See Joint Committee on Taxation (JCT), General Explanation of P.L. 115-97, JCS-1-18, December 20, 2018, at https://www.jct.gov/publications.html?func=startdown&id=5152.

[3] Congressional Budget Office (CBO), *The Budget and Economic Outlook: 2018 to 2028*, April 2018, at https://www.cbo.gov/system/files/2019-04/53651-outlook-2.pdf.

Short-Run Effects

Although some claims were made for significant short-term growth, with some sources claiming the tax cut would produce enough growth to pay for itself, most analysts projected a relatively small effect on the economy in the short run, ranging from 0.1% to 0.8% of GDP in 2018.[4] The Congressional Budget Office (CBO) projected a 2018 real growth rate of 2.7% without the tax cut and 3% with it, for a 0.3% growth increase due to the tax revision. Real GDP growth in 2018 was 2.9%. This growth rate is consistent with a relatively small first-year effect. Although it cannot be shown in retrospect how much of 2018's growth was due to the tax cut, the growth rate in 2018 was not unusual compared with recent history, as shown in **Figure 1**. These projections and observed growth rates tend to rule out pronounced short-run effects and suggest a small product-demand effect in general.

Figure 1. Growth in Real Gross Domestic Product, First Quarter 2013 Through Fourth Quarter 2018



Source: CRS Report R45736, *The Economic Effects of the 2017 Tax Revision: Preliminary Observations*, by Jane G. Gravelle and Donald J. Marples.

A limited short-run demand side effect is not surprising: for a demand-side stimulus to be effective, the savings from tax cuts must be spent. A significant share of the tax cut was for corporations that are more likely to save. Investment incentives might, however, spur corporate spending.

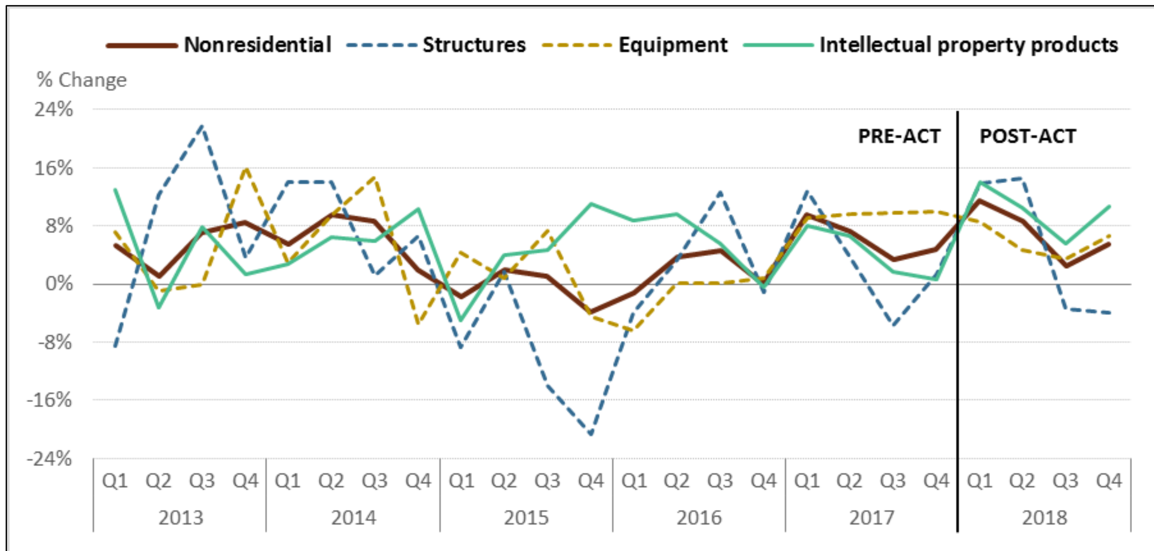
Business investment growth was quite strong in 2018, at a rate of 7%. However, this investment growth might not be attributed to the tax cut. The most pronounced growth occurred in the first two quarters of 2018, which would leave little time for planning. The patterns of investment growth were inconsistent with changes in investment incentives created in the tax revision: the incentive for buildings was the largest, but this category grew more slowly than the other categories; there was a tax increase for research and development (R&D), the main component of intellectual property, yet this asset grew at a rate similar to equipment and faster than buildings.[5] In any case, investment

[4] See Congressional Budget Office (CBO), *The Budget and Economic Outlook: 2018 to 2028*, April 2018, at https://www.cbo.gov/system/files/2019-04/53651-outlook-2.pdf, for projections. For a more detailed discussion of first-year effects, see CRS Report R45736, *The Economic Effects of the 2017 Tax Revision: Preliminary Observations*, by Jane G. Gravelle and Donald J. Marples.

[5] See CRS Report R45736, *The Economic Effects of the 2017 Tax Revision: Preliminary Observations*, by Jane G. Gravelle and

growth rates are more volatile than overall output growth rates, as shown in **Figure 2**, and also are not out of line with the recent past.

Figure 2. Growth in Nonresidential Investment and Subcomponents, First Quarter 2013 Through Fourth Quarter 2018



Source: CRS Report R45736, *The Economic Effects of the 2017 Tax Revision: Preliminary Observations*, by Jane G. Gravelle and Donald J. Marples.

Longer-Run Effects

In the longer run, any demand-side stimulus would fade, and aggregate effects on the economy would depend on supply-side consequences for labor supply, savings, and investment. Under current law, the marginal tax rate reductions for labor income expire after 2025, and the chained CPI index will increase these tax rates in the long run. Moreover, even in the intermediate period tax rate reductions for labor supply are not large (averaging around 2 percentage points, according to CBO).[6] In addition, empirical evidence suggests a limited behavioral response of labor supply to changes in tax rates.[7] Similarly, expensing for equipment expires after 2025, although the corporate tax rate changes are permanent. Long-run effects on investment, however, will likely be offset by crowding out, because a growing government debt borrows resources that could otherwise be used by the private sector for investment.

Donald J. Marples. Investment incentives depend on the user cost of capital, which is the forgone earnings of investment tied up in the capital stock plus the wasting away of the asset. Intellectual property's dominant asset is research and development (R&D), and under the Act the tax burden increased on R&D investment. Intellectual property also includes purchased software and entertainment (such as movies and sound recordings), which did receive incentives. In 2018, R&D grew by 6.7%, whereas structures grew by 5%. Tax reductions should have had a negligible effect on purchased software because it is short lived and most of its cost is the wearing out, but this investment increased the most, by 10.3%. Entertainment had a significant decrease in user cost but grew more slowly than the other assets, at 2.4%.

[6] CBO, *The Budget and Economic Outlook: 2018 to 2028*, April 2018, at https://www.cbo.gov/system/files/2019-04/53651-outlook-2.pdf.

[7] See CRS Report R43381, *Dynamic Scoring for Tax Legislation: A Review of Models*, by Jane G. Gravelle for a discussion of the literature.

There is more variability in the projection of output effects in the longer run. In the intermediate term, while the individual tax cuts are in effect, most projections of output effects ranged from 0.0% to 2.2% and from 0% to 1% if excluding the 2.2% estimate, which was from a model that did not account for crowding out.[8] By 2027, projected effects on output ranged from a negative 0.1% to 2.9% or from negative 0.1% to 1.1% if the value from the model not permitting crowding out is excluded. This long-run effect projection averages about 0.4%; the CBO estimate is 0.6%.[9] Note that these increases represent the cumulative increase in growth rate over time compared to economic output without the tax revision. For example, a 0.4% increase in output after 10 years implies an increase in the growth rate each year of, on average, 0.04%, and even an increase of 1% implies an annual growth rate of one tenth of one percent. These projections suggest a modest, and less certain, growth effect in the longer run.

Special Issues with Small Business

The analysis above suggests results that assume the effects of the Act on demand are similar for small and large businesses. The activities small businesses engage in, however, are different from those of large businesses. In general, pass-through businesses tend to be smaller than C corporations, although some corporations are small businesses and some pass-through businesses are large (and the majority of firms of any type are small).[10] **Table 1** shows the organizational forms of C corporations (taxed under the corporate tax), along with S corporations, partnerships, and proprietorships taxed under the individual tax, along with their share of business income and average business income. Within partnerships, three types are shown: (1) general partnerships, whose partners each have liability exposure; (2) limited partnerships, whose most partners largely have limited liability, and (3) limited liability corporations (LLCs), which are organized as corporations but have characteristics that permit them to be taxed as pass-throughs. Different types of pass-throughs have considerable variability in their receipt sizes, although on average C corporations have larger receipts.

Table 1. Distribution of Business Receipts and Size of Receipts by Organizational Form, 2013

Entity Type	Share of Business Receipts	Average Business Receipts
C Corporation	60.4%	$12,478,517
S Corporation	20.3%	$1,584,133
Partnership	15.2%	$1,464,726
General	1.2%	$708,820
Limited	3.8%	$3,066,910
LLC	8.9%	$1,295,390
Non-Farm Proprietorships	4.0%	$55,725

[8] The excluded model is the Tax Foundation model.

[9] CBO, *The Budget and Economic Outlook: 2018 to 2028*, April 2018, at https://www.cbo.gov/system/files/2019-04/53651-outlook-2.pdf.

[10] See CRS Report R44086, *Pass-Throughs, Corporations, and Small Businesses: A Look at Firm Size*, by Mark P. Keightley and Joseph S. Hughes. Some higher-income individuals who have incomes in part from business (such as a consulting business) may have organized that part of their activities in a corporation in order to take advantage of the lower graduated corporate rates that existed in prior law.

Source: Internal Revenue Service, Statistics of Income: Integrated Business Data, Table 1. Corporate Tax Data, Table 16, S Corporation Data Table 4, Partnership Data Table 1, and Non-Farm Proprietorship Data Table. Data are at https://www.irs.gov/statistics.

As shown in **Table 1**, about 60% of business receipts fall in the corporate sector. However, within activities, there are significant differences, in particular in the two types of industries that produce investment goods: construction and manufacturing. C corporations account for 78% of manufacturing, but only 24% of construction. Unincorporated businesses also own a larger share of structures (55% of nonresidential structures outside public utilities and 96% of residential rental structures) than their share of business receipts or the total capital stock (which is estimated at 40%).[11]

Although a full-scale input-output model would be required to determine the aggregate effects, effects arising from any supply-side incentives for investment could be smaller for smaller business. If most increase in spending is on investment assets, and the pass-through businesses dominate the construction industry, it is useful to examine incentives for all structures. Before the individual tax provisions expire, or if they become permanent, the tax law will provide a negative incentive for residential construction. The tax law significantly reduced the number of itemizers and the benefits of itemizing deductions, through the limits on deductions for state and local taxes and a higher standard deduction, reducing the estimated share of taxpayers benefitting from mortgage interest deductions from 20.1% to 8.2% and reducing the benefit by 58%.[12] Owner-occupied housing accounts for almost half the stock of structures (48%), and residential including rental accounts for 55%.[13] If the individual tax provisions expire, the effect on owner-occupied housing will disappear as the changes in the standard deduction and itemized deductions will expire, but smaller businesses will lose their rate reductions and pass-through deductions, affecting them through both the construction industry (as the increase in demand for nonresidential structures declines) and their own business in the cost of acquiring structures. In addition, as long-lived assets, demand for structures is more sensitive than demand for equipment to an increase in interest rates that would eventually be expected to occur through crowding out. As time passes, the crowding-out effects of a growing deficit will dominate supply-side incentives and those effects are expected to occur more quickly and more strongly for long-lived assets such as structures.

Direct Tax Benefits Provided by the Act

Rate Reductions and the Pass-Through Benefits

The tax revision enacted a number of provisions affecting unincorporated business, with perhaps the most prominently discussed being the pass-through deductions (sometimes called the Section 199A deduction). This provision is, as is the case of most other individual provisions, temporary and expires after 2025. It allows a 20% deduction for pass-through business income, with no restrictions for married taxpayers with under $315,000 of taxable income and other taxpayers with under $157,000 of income. The benefit is phased out between $315,000 and $415,000 for married couples and between $157,000 and $207,000 for other returns. (These values are for 2018 and are indexed for

[11] Data from the National Income and Product Account (NIPA) count Subchapter S corporations in the corporate sector and their data must be adjusted to reallocate this share to pass-through businesses. These estimates adjust for that effect. See CRS Report R44242, *The Effect of Base-Broadening Measures on Labor Supply and Investment: Considerations for Tax Reform*, by Jane G. Gravelle and Donald J. Marples.

[12] The Tax Policy Center estimates that the percentage of taxpayers benefiting from the home mortgage interest deduction fell from 20.2% in 2017 (Table T18-0169, at https://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-october-2018/t18-0169-tax-benefit-itemized) to 8.2% in 2018 (Table T18-0171, at https://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-october-2018/t18-0171-tax-benefit-itemized).

[13] NIPA's Fixed Assets data, Tables 1.1 and 5.1, at https://apps.bea.gov/itable/index.cfm.

inflation). However, earnings from firms whose trade or business is not in performing services (e.g., doctors, lawyers) may qualify even though their incomes are above the phaseout. For those nonservice firms, a deduction is allowed regardless of taxable income up to the greater of (1) 50% of W-2 wages paid or (2) 25% of W-2 wages plus 2.5% of the unadjusted basis of depreciable assets when acquired.

Although the pass-through deduction has received a lot of attention, individual business owners also received rate reductions. For example, at the top income level (above $600,000 in taxable income for married couples) tax rates fell from 39.6% to 37%, for a 2.6 percentage point reduction in the marginal tax rate. If the full 20% deduction were allowed, the rate would be further reduced by 7.4 percentage points (20% of 37%). The relative effects, however, vary across the taxable income categories. **Table 2** shows the relative rate reductions and potential pass-through deductions for a joint return at 2018 income levels.

Table 2. Effect of Changes in Regular Tax Rates and the Pass-Through Deduction, Joint Returns, 2018

Taxable Income Level	Prior Tax Rate	New Tax Rate	Change in Rate	Effect of 20% Deduction if Eligible
More than $600,000	39.6	37.0	-2.6	-7.4
$480,050-$600,000	39.6	35.0	-4.6	-7.0
$424,950-$480,050	35.0	35.0	0.0	-7.0
$400,000-$424,950	33.0	35.0	2.0	-7.0
$315,00-$400,000	33.0	32.0	-1.0	-6.4
$237,950-$315,000	33.0	24.0	-9.0	-4.8
$165,000-$237,950	28.0	24.0	-4.0	-4.8
$156,150-$165.000	28.0	22.0	-6.0	-4.4
$77,400-$156,150	25.0	22.0	-3.0	-4.4
$19,050-$77,400	15.0	12.0	-3.0	-2.4
$0-$19,050	10.0	10.0	0.0	-2.0

Source: CRS Calculations.

In most cases, the pass-through deduction, if available, has a larger effect on marginal tax rate than the regular rate reduction, but the magnitude of the overall pass-through deduction is reduced by the phaseout. The Tax Policy Center has estimated the distribution of the benefit of the pass-through deduction as well as the effects on marginal tax rates according to income quintile. Using their data, the rate reduction reduced marginal tax rates by 3.8 percentage points. The pass-through deduction reduced the average rate by 3.0 percentage points, with the marginal effect likely slightly higher.[14] These data suggest that the individual rate cut was as important as the pass-through deduction.

[14] For data on the distribution of the pass-through deduction, see Tax Policy Center, at https://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-october-2018/t18-0213-tax-benefit-20-percent. For data on marginal tax rates, the tax rate in each bracket for wages and salaries was used, see Table T17-0324, Effective Marginal tax Rates (EMTR) on Wages and Salaries, 2018, at https://www.taxpolicycenter.org/model-estimates/conference-agreement-tax-cuts-and-jobs-act-dec-2017/t17-0324-effective-marginal. Effective marginal tax rates were weighted by the distribution of returns that received the pass-through deduction.

The limited effect of the pass-through deduction as implied by the rate changes in **Table 2** is due, in large part, to the phase out. A Treasury study estimated that without the phaseout the revenue cost would have increased the estimated cost by 66%, with 59% of the difference due to the service sector businesses and the reminder from high-income individuals with businesses that did not have enough wages or assets to fully qualify.[15] The study also found that the phase-outs reduced the share of the benefit from the deduction from 83% to 72% for the top 5% of returns by income, and from 64% to 47% for the top 1% of returns. The study also found that of the top five business types (ordered by total business income)—professional services, real estate, finance and insurance, construction, and health—three of these business types (professional services, health, and finance and insurance) accounted for 56% of the effect of the phase out, while the other two (construction and real estate) account for 16%.

The pass-through deduction allowed a way to provide an additional tax cut to unincorporated business compared with corporate business, as the corporate tax rate was cut from 35% to 21%, or by 14 percentage points, more than twice as large as the overall rate reduction for unincorporated business (including both statutory rate reductions and the value of the pass-through deduction). One element of the corporate changes that was not favorable to small business was the elimination of graduated rates. This graduated structure imposed a rate of 15% on the first $50,000 of income, 25% on the next $25,000, and 34% thereafter. As a result, small corporations with around $90,000 or less of taxable income pay higher rates under current law.[16]

Issues of Complexity

The pass-through deduction presents complications for taxpayer compliance and for administrative enforcement. A prominent issue has been identifying an ineligible high-income personal service business. Although this provision's purpose was presumably to prevent income from personal services, which is similar to wage income, from being eligible for the deduction, it is not a simple matter to define personal service income. The law enumerated certain activities (such as health, law, consulting) and also contained a catch-all category (a business in which the principal asset is the reputation and skill of one or more employees or owners and reputation of the individual). Even the enumerated activities are not easy to define (for example, whether medical laboratories are included in health). The catch-all category could be broadly or narrowly defined. The personal service provision has also led to "crack and pack" strategies to separate ineligible activities from eligible ones or combine businesses to maximize eligibility for the deduction. Although regulations have been issued that provide more detailed guidance, areas of ambiguity will inevitably remain.[17] Another area of complexity is defining the differences between investment activities (in which income is not eligible) and a trade or business.

The changes in tax rates, pass-through provisions, and graduated corporate rates have created new considerations of entity choice by taxpayers. As indicated by the tax rates in **Table 2**, most high-income taxpayers will have higher rates than rates paid by corporations on business income, but any dividends will be subject to an additional tax if they incorporate. For most pass-through businesses, income is subject to an additional 3.8% tax, leading to a top individual rate of 40.8%.[18] This tax is not

[15] Lucas Goodman et al., Simulating the 199A Deduction for Pass-through Owners, Department of the Treasury, Office of Tax Analysis, Working Paper 118, May 2019, https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/WP-118.pdf

[16] The exact figure is $90,384. 62. To solve for this value set 0.34*(x-75000) + 13750 = .21x, where x is income.

[17] See IRS regulation 107892-18m at https://www.irs.gov/pub/irs-drop/td-reg-107892-18.pdfRegulation.

[18] The 3.8% tax is imposed as a net investment tax on capital gains, corporate dividends, and passive income of pass-throughs; it is imposed as a Medicare tax on proprietorships, active partnership income, and wages paid to Subchapter S owners. Active

imposed on active business income of shareholders in Subchapter S corporations who have a maximum rate of 37%. Depending on how much income is to be paid out in distributions, whether the taxpayer is eligible for the pass-through deduction, and the income level, either business entity form may be preferable. The maximum combined corporate and individual rate for a high-income taxpayer is 39.8% if all income is distributed, but is 30.4% if half of income is distributed, and 21% if none is distributed.[19] One complication of changing entity choice is that, with uncertainty about future tax rates both corporate and individual, individuals moving to corporate form might subsequently find difficulties in moving back to noncorporate form, as that change may involve some tax payments. (It is much easier to move from noncorporate to corporate form).

These changes have also affected other planning strategies, such as how much of Subchapter S owner-employee payments should be for wages. The normal strategy is to minimize wages to avoid payroll taxes, and the pass-through deduction will increase that incentive because wage income is not qualified income for the pass-through deduction. This incentive might be offset, however, if the firm is subject to the limit that involves 50% of wages. The alternative limit that covers wages and 2.5% of assets may cause businesses to purchase rather than lease assets.

Incentives to Invest in Assets

As discussed below, most investment in equipment and certain building improvements is expensed. In those circumstances a reduction in the tax rate (either through statutory rates or the pass-through deduction) creates a disincentive to invest at the margin.[20] For equity investment, expensing produces a zero effective tax rate regardless of the statutory rate. The tax savings from taking a deduction up front offset the tax on earning (which are discounted because these taxes are paid in the future). For debt-financed investment, lower rates discourage capital investment because they reduce the value of interest deductions. In the case of investment in structures and any assets not eligible for expensing, however, the lower tax rates and pass-through deduction result in an incentive to invest.

The pass-through deduction also produces tax increases in the phaseout range for taxpayers who are not qualified because they provide ineligible services or do not have enough employee wages or assets to take additional deductions. The magnitude of disincentives depends on how much business income was qualified for a deduction. For example, in the case of a joint return, if $100,000 was eligible for the deduction (with other income from other sources), each dollar of income above $315,000 of taxable income would result in a $0.20 increase in taxable income as deductions are lost. This increased tax has the reverse effect of a lower rate.

An investment disincentive is also created if tax rates are expected to expire. The deductions for expensing take place at a lower rate than the subsequent taxable income which, for example, creates an effective tax on equity investment whereas a constant rate would produce a zero effective tax rate.

Arguments are sometimes made that the cash flow provided by tax cuts will lead to investment. For some firms, especially small ones, there may be cash flow constraints that prevent investments, and across-the-board tax cuts may permit some investment. Whether that outcome is desirable depends on whether the investment was sound, which may require considering why the firm did not have access to credit. If there is a credit market failure, addressing that issue directly might be a better alternative.

---

income of Subchapter S corporation shareholders is not subject to the tax.

[19] The tax rate is 0.21+x(1-.21)*0.238, with 0.21 the corporate rate, 0.238 the dividend tax rate, and x the share of income distributed. If undistributed income is retained until death no capital gains tax will apply.

[20] If a firm undertakes all of the desirable investments, the last investment earns just enough profit to be justified and is referred to as a marginal investment.

In any case, businesses that are large and successful (and according to data in **Table 1** tend to dominate small business) are not likely to invest a cash windfall, from a reduction in tax, absent investment incentives.

Both for investment incentive purposes and cash flow issues, more targeted tax approaches than rate cuts (either through regular rates or the pass-through deduction) exist, such as shortening depreciation periods for buildings or providing investment credits,[21] tax incentives that are contingent on making an investment.

Depreciation (Cost Recovery)

A second group of provisions adopted in the Act relates to cost recovery. Under prior law, up to $500,000 of the cost of equipment could be expensed (deducted immediately rather than depreciated over a period of time), with the amount phased out dollar for dollar beginning at $2 million of acquisitions. This provision is also referred to as Section 179 expensing. The Act increased the $500,000 amount to $1 million and the beginning of the phaseout to $2.5 million, and indexed it for inflation.[22] This provision is permanent.

During the years through 2022, this tax provision is not meaningful, because business in general is allowed to expense equipment without a dollar limit under a general business expensing rule (sometimes called bonus depreciation). After 2022, a partial expensing rule would make Section 179 expensing relevant, assuming the full expensing for all taxpayers is allowed to expire. Section 179 also remains relevant for certain qualified structures (restaurant, retail, and leasehold improvements), which were inadvertently excluded from the definition of eligible property for the general expensing provision, an oversight that also caused an increase in their depreciable lives from 15 years to 39 years. Thus, Section 179 is beneficial for small businesses making structural improvements in their buildings in certain circumstances.

The phaseout of the expensing (assuming expensing in general expires) creates a disincentive to invest.

Other Tax Provisions

A number of other tax changes affect small businesses. The Act, for example, contained an expansion of eligibility for cash flow accounting, which may simplify small business tax compliance. Some provisions that raise taxes include ending the production activities deduction, limiting the meals and entertainment deduction, and disallowing the employee transportation and parking deduction. There is also a restriction on the deductibility of investment interest, but firms with less than $25 million in gross receipts are not subject to that limit, so it is unlikely to affect most small businesses. The provisions discussed in this subsection are unlikely to have a significant effect on investment.

---

[21] A flat investment credit is not neutral, as it favors short-lived assets. A credit can, however, be designed to be neutral.

[22] For a discussion of these provisions see CRS Report RL31852, *The Section 179 and Section 168(k) Expensing Allowances: Current Law and Economic Effects*, by Gary Guenther.

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.