



Making Work Pay: Small Business & Start Up Companies Tax Credit: Grow Local & National Economies

Campaign Promise:

Provide Tax Relief for Small Businesses and Start Up Companies: President Barack Obama and Vice-President Joe Biden support small business owners by providing a \$500 "Making Work Pay" tax credit to almost every worker in America. Self-employed small business owners pay both the employee and the employer side of the payroll tax, and this measure will offset double taxation.

Policy Details:

The "Making Work Pay" Tax Credit is a new national entrepreneur tax credit to assist businesses with payroll tax burdens. The Tax Credit has the added value of encouraging job creation, family self-sufficiency, asset building, business development, community revitalization, fiscal stimulus, disaster-based emergency relief and even "tax gap" reduction. It would encourage small businesses to formalize their business, pay into Medicare and Social Security, help close the tax gap and encourage economic growth.

Its components include:

- **\$500 tax credit.** The proposed tax credit can provide \$500 in the tax year it is claimed to every working person, including self-employed small business owner in the United States.
- **Must file IRS 1040 Schedule C to claim.** Since nearly all enterprises start out as unincorporated entities and report business income for the first time, using standard individual Form 1040 Schedule C as the entry item to claim the tax credit. In 2002, 18.9 million taxpayers filed Schedule C, of which the vast majority of these had no employees (87%), 11.4 million had adjusted gross incomes (AGI) under \$50,000; and 4.4 million self-employed businesses qualified for a tax refund through the Earned Income Tax Credit (EITC). That 4.4 million represents 20% of all EITC recipients (21.7 million in 2002).
- **Encourages new businesses to formalize.** The MWP has the added advantage of encouraging newly formed businesses to fully formalize its participation in the economy.
- **Higher rates of voluntary tax compliance.** As a byproduct, the credit is likely to induce higher rates of tax compliance at earlier points in the business development process resulting in earlier collection of both income tax revenues and Social Security and Medicare payments.
- **Focus on sole-proprietorship.** More than 90% of all businesses start as a "sole proprietorship," or self-employed business, by default. Unless a business has formally incorporated or entered into a partnership, it is a self-employed business, and its net income is subject to taxation through calculations performed on "Schedule C" (or C-EZ). Unlike an incorporated business, an unincorporated self-employed business is not a separate legal entity but simply an extension of the "individual" taxpayer.

Recommended Action:

Include the Making Work Pay Tax Credit in President Obama's first budget.

Legislative Language:

Add "Making Work Pay" to Table S-6: Mandatory Proposals.

Resource Information:

<http://www.barackobama.com/issues/economy/#small-business>

<http://www.cfed.org/go/seti>

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