NATIONAL AUTOMOBILE DEALERS ASSOCIATION

NADA

Tax Reform Should Protect Small Business Entities from Tax Increases

Members Should Oppose "Corporate-Only" Tax Reform

Issue

Any effort to reform only the corporate tax code could have a detrimental effect on small businesses, such as automobile dealerships, which often operate as "pass-through" entities. These businesses, which pay taxes at the individual income tax rates, could lose the benefit of critical tax preferences (i.e., deductions, credits and exclusions) while gaining none of the benefits of a lower corporate tax rate. As Congressional tax-writing committees work through possible major changes to the tax code, NADA urges a comprehensive approach that addresses both the individual tax code and the corporate tax code to promote fairness in the treatment of all businesses, regardless of their entity form.

Background

While NADA's diverse membership includes dealerships of all sizes, the majority of dealerships are family-owned. Dealers operate in a variety of entity forms, including sole proprietorships, partnerships, limited liability corporations, S corporations, and C corporations. Many dealers have paid taxes as their particular entity type for decades, as they have determined what structure best serves their business model. Even within a dealership, they may use more than one choice of entity.

In 2012, the Obama Administration released a framework for business tax reform that lowers corporate rates in exchange for the reduction or elimination of deductions and credits. The framework does not propose to lower individual tax rates, but instead includes some small business tax incentives, a number of which would provide either minimal benefit to dealerships or not be available to dealerships at all. This approach would create inequities for dealerships operating as "pass-through" entities, as they would lose the benefit of many of their tax preferences (such as LIFO and accelerated depreciation) while receiving no tax rate relief at all. This situation may be further exacerbated by the fact that the Administration has also suggested that undefined "large pass-through" entities should be subject to additional taxation.

Key Points

- Dealerships are a significant source of American jobs, with almost one million direct employees. Many of these jobs are in "pass-through" entities that pay taxes at individual rates.
- Corporate-only tax reform coupled with the passage of higher marginal rates in 2013 would be a "lose-lose" for some "pass-through" dealerships. Under corporate-only tax reform, taxable income of the pass-through business would be higher (due to eliminating tax preferences in corporate tax reform), subjecting such income to higher individual tax rates.
- Eliminating or reducing tax preferences for "pass-through" entities to fund corporate tax reform without lowering individual tax rates would be unfair and seriously harm thousands of dealerships across the country.

Status

In 2013 NADA submitted testimony to the Ways and Means Committee regarding its priorities for tax reform. NADA also submitted comments to the Senate Finance Committee in 2014. As deliberations on tax reform continue, Congress should ensure any effort provides consistent treatment to all taxpayers, regardless of their entity form.

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