

# Spotlighting Small Businesses in Tax Reform

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Tax deductions, credits, and exclusions can support small business growth by encouraging investment and reducing costs. In a February 2025 survey by Goldman Sachs *10,000 Small Businesses Voices*, small business respondents listed reforming tax policy as one of the top three priorities for the new administration. 73% of those respondents believe the current federal tax system is unfavorable to small businesses.<sup>1</sup>

Small businesses win when the costs of doing business are contained, predictable, and fair, allowing them to focus on growth—not navigating tax complexities. As they look to grow and better compete with larger firms, small businesses are paying close attention to the following provisions as Congress debates tax reform.

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<sup>1</sup> Goldman Sachs, “Small Business Owners Optimistic for 2025, but Urge Washington to Act on Key Challenges,” March 6, 2025. Available at: <https://www.goldmansachs.com/community-impact/10000-small-businesses-voices/insights/small-business-owners-optimistic-for-2025-but-urge-washington-to-act-on-key-challenges>

## SMALL BUSINESS TAX DEDUCTIONS — REDUCING TAXABLE INCOME

### R&D Expensing

Description	Status
Before 2022, small businesses could deduct 100% of R&D expenses from their income in the year they incurred those expenses. Legislation passed in 2017 requires businesses to deduct R&D expenses from their taxes by amortizing, or spreading out, their deductions over a five- or 15-year period beginning with expenses in 2022. <sup>2</sup>	Permanent law
Small Business Impact	Outlook
Compared with immediate expensing, amortization increases the cost of investing in R&D and can create liquidity problems for small businesses.  The 2022 change from immediate R&D expensing to amortization also created confusion for some taxpayers. <sup>3</sup>	Bipartisan and bicameral support exists for returning to full and immediate R&D expensing. 118 House Republicans and 105 House Democrats cosponsored legislation to eliminate the amortization requirement for R&D expenditures in the 118th Congress. <sup>4</sup> A similar Senate bill was supported by 22 Republicans, 19 Democrats, and two independents. <sup>5</sup>

**“We’ve relied on R&D expensing for years to essentially fund our R&D budget. The change to amortization has reduced our cash flow, creating an untenable situation. We have laid off staff and scaled back our R&D efforts as a result.”**

**— FOUNDER OF AN ENGINEERING COMPANY IN OAKLAND, CA**

### Section 179 Expensing

Description	Status
Allows businesses to immediately deduct the costs of a variety of investments, including machinery and equipment. The maximum expensing allowance, which is indexed to inflation, is \$1.25 million in 2025. <sup>6</sup>	Permanent law
Small Business Impact	Outlook
Small businesses receive a larger proportional benefit from the deduction than larger firms because the maximum expensing allowance phases out once businesses surpass a certain threshold for investments. <sup>7</sup>	A bipartisan majority supported legislation during the 118 <sup>th</sup> Congress that would have increased the deduction and the phase-out threshold. <sup>8</sup>

<sup>2</sup> Congress.gov. “H.R.1 - 115th Congress (2017–2018): An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.” December 22, 2017. Available at: <https://www.congress.gov/bill/115th-congress/house-bill/1>.

<sup>3</sup> Andrew Lautz and Rachel Snyderman, “Congress is Running out of Time to Fix a Critical R&D Tax Issue in 2023,” Bipartisan Policy Center, November 2, 2023. Available at: <https://bipartisanpolicy.org/blog/congress-is-running-out-of-time-to-fix-a-critical-rd-tax-issue-in-2023/>.

<sup>4</sup> See H.R. 2673, the American Innovation and R&D Competitiveness Act, from the 118<sup>th</sup> Congress. As of March 4, 2025, there has been no bipartisan effort in 119<sup>th</sup> Congress to revive this policy.

<sup>5</sup> See S. 866, the American Innovation and Jobs Act, from the 118<sup>th</sup> Congress.

<sup>6</sup> Congress.gov. “H.R.1 - 115th Congress (2017–2018): An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.” December 22, 2017. Available at: <https://www.congress.gov/bill/115th-congress/house-bill/1>.

<sup>7</sup> Congress.gov. “H.R.1 - 115th Congress (2017–2018): An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.” December 22, 2017. Available at: <https://www.congress.gov/bill/115th-congress/house-bill/1>.

<sup>8</sup> H.R. 7024, the Tax Relief for American Families and Workers Act, passed the House 357-70 in January 2024. As of March 19, 2025, there has been no bipartisan effort in 119<sup>th</sup> Congress to revive this policy.

## Pass-Through Deduction (199A)

Description	Status
Allows taxpayers with pass-through business income (e.g., partnerships, S corporations, and sole proprietorships) to deduct 20% of qualified business income. <sup>9</sup>	Expires at the end of 2025
Small Business Impact	Outlook
Nearly 26 million tax returns claimed the deduction in 2022, reducing small business owners' taxable income by an average of \$8,423. <sup>10</sup>	Republicans generally favor extending the deduction because it reduces tax liability for pass-through business owners (many of which are small businesses), while some Democrats support changes that would direct more of the deduction's benefit to low- and middle-income business owners. <sup>11</sup>

**"I've had clients convert to C corporations just because there's more certainty about what the tax environment will be for businesses organized that way. All the unknowns and potential changes coming for sole proprietorships, S corporations, and other pass-throughs make long-term planning very difficult for businesses. As a CPA who provides accounting services to small businesses, the uncertainty makes it very challenging to give them clear guidance."**

**— OWNER OF AN ACCOUNTING FIRM IN ST. CLAIR SHORES, MI**



**199A:** [Read more about the pass-through deduction.](#)



[Learn about other business deductions.](#)

<sup>9</sup> Congress.gov. "H.R.1 - 115th Congress (2017–2018): An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018." December 22, 2017. Available at: <https://www.congress.gov/bills/115/congress/house-bill/1>.

<sup>10</sup> Congressional Research Service, "Selected Issues in Tax Policy: Section 199A Deduction for Pass-Through Business Income," December 3, 2024. Available at: <https://www.congress.gov/crs-product/IF12838>; Internal Revenue Service, "Statistics of Income" Table 1.4, 2022. Available at: <https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income>.

<sup>11</sup> H.R. 703, a Republican-led bill in the 119th Congress, would permanently extend the pass-through deduction. Joint Committee on Taxation Staff, "DESCRIPTION OF THE CHAIRMAN'S AMENDMENT IN THE NATURE OF A SUBSTITUTE TO THE COMMITTEE PRINT RELATING TO INFRASTRUCTURE FINANCING (SUBTITLE F), GREEN ENERGY (SUBTITLE G), THE SOCIAL SAFETY NET (SUBTITLE H), AND PRESCRIPTION DRUG PRICING (SUBTITLE J)," Joint Committee on Taxation, September 14, 2021. Available at: <https://www.jct.gov/getattachment/d1071964-144b-492c-ab99-81b1c376232d/x-43-21.pdf>; Maureen Leddy, "Despite Passing Tax Bill, House Dems, Reps Disagree on Path Forward," Thomson Reuters, April 15, 2024. Available at: <https://tax.thomsonreuters.com/news/despite-passing-tax-bill-house-dems-reps-disagree-on-path-forward/>.

## SMALL BUSINESS TAX CREDITS — REDUCING TAXES OWED

### Retirement Plan Startup Credit

Description	Status
Offsets businesses' costs associated with starting and offering a retirement plan to their employees. The credit is capped at \$5,000. <sup>12</sup>	Permanent law
Small Business Impact	Outlook
Offering retirement benefits can make a small business a more attractive place to work. The retirement plan startup credit covers a substantial portion of the costs associated with launching a plan.	Some Republicans and Democrats have expressed support for improving the tax credit, including by making it timelier for small businesses and by increasing the amount of the credit. <sup>13</sup>

### Paid Leave Credit (45S)

Description	Status
Offsets up to 25% of the cost to businesses for providing paid family and medical leave benefits to their employees. <sup>14</sup>	Expires at end of 2025
Small Business Impact	Outlook
Only 19% of workers at small businesses with fewer than 50 employees have access to paid leave benefits. <sup>15</sup> Helping small businesses offset the costs of providing paid leave benefits can make them more competitive by helping them attract and retain workers.	House and Senate members have introduced bipartisan bills to make the 45S tax credit permanent, reduce the employment eligibility period, and require outreach to educate business owners about the credit, among other changes designed to increase uptake. <sup>16</sup>

### Employer-Provided Child Care Credit (45F)

Description	Status
Offsets businesses' costs of providing or subsidizing child care for their employees. The maximum credit is \$150,000. <sup>17</sup>	Permanent law
Small Business Impact	Outlook
Many small businesses do not claim the credit, in part because companies must spend \$600,000 in employee child care (or \$1.5 million in child care resource and referral services) to receive the maximum credit. <sup>18</sup>	House and Senate members are championing bipartisan proposals to increase the 45F credit, expand the amount of child care expenses eligible for the credit, and implement other changes to make it more attractive to small businesses. <sup>19</sup>

<sup>12</sup> Congress.gov. "Text - H.R.1994 - 116th Congress (2019–2020): Setting Every Community Up for Retirement Enhancement Act of 2019." June 3, 2019. Available at: <https://www.congress.gov/bills/116/congress/house-bill/1994/text>.

<sup>13</sup> Emerson Sprick and Shai Akabas, "The Path Ahead for Retirement Plan Startup Credits," Bipartisan Policy Center, July 1, 2024. Available at: <https://bipartisanpolicy.org/blog/retirement-startup-tax-credits/>.

<sup>14</sup> Internal Revenue Service, "Internal Revenue Bulletin," Notice 2019-71, October 9, 2018. Available at: [https://www.irs.gov/irb/2018-41\\_IRB#NOT-2018-71](https://www.irs.gov/irb/2018-41_IRB#NOT-2018-71).

<sup>15</sup> U.S. Bureau of Labor Statistics, "Employee Benefits in the United States," U.S. Department of Labor, September 21, 2023. Available at: <https://www.bls.gov/ebs/publications/employee-benefits-in-the-united-states-march-2023.htm>.

<sup>16</sup> See H.R. 996 and S. 400, the Paid Family and Medical Leave Tax Credit Extension and Enhancement Act of 2025.

<sup>17</sup> Congress.gov. "H.R.8 - 112th Congress (2011–2012): American Taxpayer Relief Act of 2012." January 2, 2013. Available at: <https://www.congress.gov/bills/112/congress/house-bill/8>.

<sup>18</sup> Linda Smith, Caroline Osborn, & Brittany Walsh, "The Employer-Provided Child Tax Credit (45F)," Bipartisan Policy Center, November 2022. Available at: [https://bipartisanpolicy.org/download/?file=wp-content/uploads/2022/11/WEB\\_BPC\\_ECI-45F-Explainer\\_R01.pdf](https://bipartisanpolicy.org/download/?file=wp-content/uploads/2022/11/WEB_BPC_ECI-45F-Explainer_R01.pdf).

<sup>19</sup> See for example S. 847, the Child Care Availability and Affordability Act of 2025; S. 5254, the Child Care for American Families Act of 2024; and H.R. 4571, the Child Care Investment Act of 2023.

**“I would love to offer more paid leave or child care benefits, and maybe I could if I better understood how to utilize the credits.”**  
**– SMALL BUSINESS OWNER EMPLOYING 19 WORKERS IN MILWAUKEE**



**Startup Credit:** [Read more about Retirement Plan Startup Credits.](#)



**Child Care Credits:** [Learn more about tax credits that offset the cost of child care.](#)

## SMALL BUSINESS EXCLUSIONS — NONTAXABLE COMPENSATION

### Dependent Care Assistance Program (DCAP)

Description	Status
An employer-sponsored benefit that allows employees to exclude up to \$5,000 of dependent care assistance provided by the employer from their taxable income. <sup>20</sup>	Permanent law
Small Business Impact	Outlook
Big businesses (500+ employees) were about three times more likely to offer dependent care flexible spending accounts (a type of DCAP) in 2024 than small businesses with fewer than 50 employees. <sup>21</sup>	House and Senate members are championing bipartisan proposals that would reform DCAPs by doubling the amount of money that could be saved in a tax-exempt DCAP and allowing working parents to use a DCAP and claim the child and dependent care tax credit. <sup>22</sup>



**[Read the Small Business Policy Playbook](#)** for further discussion of many of these tax provisions and how tax complexity and uncertainty affect small businesses.

<sup>20</sup> Congress.gov, “H.R.4242 - 97th Congress (1981–1982): Economic Recovery Tax Act of 1981.” August 13, 1981. Available at: <https://www.congress.gov/bill/97th-congress/house-bill/4242>.

<sup>21</sup> U.S. Bureau of Labor Statistics, “Employee Benefits in the United States,” U.S. Department of Labor, March 2024. Available at: <https://www.bls.gov/ebs/publications/employee-benefits-in-the-united-states-march-2024.htm>.

<sup>22</sup> See, for example, S. 847, the Child Care Availability and Affordability Act of 2025 in the 119<sup>th</sup> Congress and H.R. 4571, the Child Care Investment Act, from the 118<sup>th</sup> congress.

