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Explanation of bill to provide a standard tax deduction for small businesses

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EXPLANATION OF PROPOSED BILL TO PROVIDE FOR A STANDARD TAX DEDUCTION FOR SMALL BUSINESSES, INCLUDING FARMERS.

Existing tax laws have the practical effect of requiring all small businesses to keep books and other records in order to substantiate itemized trade and business expense deductions as shown on their respective income tax returns. Theoretically, this is a valid requirement. In the case of small businesses, however, there are many cases where proprietorships, partnerships and corporations have neither sufficient funds to hire the services of an accountant, nor the time and facilities necessary to keep a sufficient accounting record, themselves. This is especially true of small retail establishments, tradesmen and farmers.

This bill is designed to relieve all small businesses from the burden of bookkeeping. It is also designed to relieve the Internal Revenue Service of the time-consuming task of checking the many tax returns of small businesses based on inadequate records. This bill is not designed to lower taxes.

The essence of the bill is that any business, whether an individual proprietorship, partnership, or corporation, if it engages less than 10 persons in its business, may, in lieu of itemizing trade or business expenses as is now required, elect to take a standard deduction.

Generally speaking, the business would be required to keep a record of total receipts only. Net taxable business income would be arrived at by deducting the standard deduction from total receipts. The standard deduction would be in lieu of all items of business or trade expense, including the cost of goods sold, depreciation, taxes, insurance, etc. In no manner would the proposed bill affect personal deductions of any kind.

It should be pointed out that farming is a small business enterprise within the meaning of the proposed bill.

The amount of the standard deduction would be as follows: On December 1 of each year, the Secretary of the Treasury or his delegate would prescribe a percentage figure for each category of trade or business for use in the following year. The application of the appropriate percentage figure to total receipts would result in the sum that the business could subtract from gross income to arrive at net taxable business income.

If the business has kept books and wishes to elect to itemize trade and business expenses, it may do so. However, it would be compelled to keep books as to trade and business expenses in the event it uses the standard deduction.