



The Daily Dish

Harris Small Business Proposals

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 10, 2024

The Harris [policy platform](#) is tissue-paper thin. But among the most prominent components is to “Grow Small Businesses and Invest in Entrepreneurs.” What should one make of this plank?

There are three features that stand out. The first is the host of access-to-capital promises that range from “drive venture capital to the talent” to Small Business Administration loans to “increase the share of federal contract dollars going to small businesses.” Taken as a whole, this is just a grab bag of promises that are neither particularly feasible (nobody “drives” venture capital to talent, except maybe Uber) nor particularly remarkable.

Next is the ever-popular promise to “take on the everyday obstacles and red tape that can make it harder to grow a small business.” The only problem is that nobody ever reduces red tape - except for the Trump Administration. Indeed, the Biden-Harris history is of a [record burden](#) imposed on the private sector: \$1.68 trillion in regulatory compliance costs. That is no favor to small businesses. Indeed, if one assumes that the share of this total burden is proportional to the number of employees in a firm, then \$920 billion of the total is borne by businesses with five or fewer employees. Of course, that is not exactly right. But it gives a good measure of the gap between Harris’ record and what is being promised on the campaign trail.

Finally, there is Harris’ proposal to “expand the startup expense tax deduction for new businesses from \$5,000 to \$50,000.” This tax policy is a curio (and a bipartisan one, for the record). From an income-measurement perspective, there is no such thing as a startup cost. There are costs of starting a business and all ordinary costs should be deducted from revenue to arrive at the correct measure of income to be taxed. Or there are capital expenditures and all the first-year capital-cost recovery should be deducted.

Eakinomics’ preferred capital-cost recovery is immediate expensing, which would mean that

all costs should be fully deducted in the year they are incurred. There is no place for a cap on deductibility and no credit should be given for merely choosing a different value for this policy error.

A better approach for businesses small and large would be for Harris to commit to making permanent the full expensing of capital purchases and research and development expenditures as part of the solution to the sunset of the 2017 tax law in 2025. This would solve the “startup cost” problem (whatever it really may be) and, more important, would put all investments - in human capital, physical capital, and innovation capital - on a level tax playing field.

Notice that there is one other advantage to this kind of an approach. Every time a small business gets a preferential tax (or other) treatment, it runs the risk of outgrowing eligibility for it. Put another way, targeted provisions for small businesses only are a tax on success and growth. That is the last thing a person should favor in running for president.