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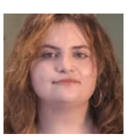
7 Ways to Support Entrepreneurs in the 2025 Tax Fight



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There will be many legislative fights in 2025—but none loom as large as tax reform. With key provisions of the 2017 *Tax Cuts and Jobs Act* (TCJA) expiring at the end of 2025, debate about tax reform is already taking center stage. As Congress considers the proposed *America First Tax Cuts Act*—Ways & Means Chairman Jason Smith's comprehensive tax reform package—policymakers cannot forget to prioritize the needs of entrepreneurs.

In the memo below, we outline seven critical tax measures that will help entrepreneurs and small business owners launch and scale their ventures.

1. Reform the Pass-Through Business Deduction (Sec. 199A)

Under TCJA, pass-through businesses—including sole proprietorships, partnerships, LLCs, and S-corporations—can deduct 20% of qualified business income (QBI). Unlike corporations, these businesses pass profits directly to owners' personal tax returns. The problem is, as currently designed, 61% of the benefits currently flow to the top 1% of earners. [1]

Rather than extend this provision as is, Congress should reform it. In recent testimony before the Senate Banking Committee's Economic Policy Subcommittee, Marc Morial, President and CEO of the National Urban League, specifically highlighted the importance of reforming and extending the QBI deduction to ensure it supports small businesses in underserved communities more effectively. [2]

Senator Ron Wyden's *Small Business Tax Fairness Act* offers one solution: simplifying eligibility requirements and capping deductions for businesses earning over $400,000 to ensure the benefit better serves main street businesses. [3] Instead of requiring business owners to determine their own eligibility, the act establishes a clear formula that automatically determines qualification, simplifying the process for small businesses by saving them time and money.

2. Allow for an Immediate Research and Development (R&D) Deduction

Currently, businesses can deduct R&D costs from their taxable income over five years. This replaced the previous system of immediate expensing where full R&D costs could be deducted in one year.[4] Consequently, businesses may have less financial flexibility to reinvest in their companies which could hinder their ability to innovate.

Bipartisan legislation from Senators Maggie Hassan and Todd Young, the *American Innovation and Jobs Act*, would restore immediate R&D expensing while increasing deduction amounts for small businesses and expanding startup eligibility.[5] Specifically, the bill doubles the R&D tax credit cap for small businesses from $250,000 to $500,000. Additionally, it broadens startup eligibility by extending the definition of a qualified startup to include companies that have been operational for up to eight years.[6]

Further, since only 30% of eligible small and mid-sized businesses currently claim R&D benefits, Congress should go beyond the Hassan-Young bill and direct the SBA and IRS to improve outreach about this credit.[7]

3. Extend the Work Opportunity Tax Credit (WOTC):

The Work Opportunity Tax Credit incentivizes businesses to hire from disadvantaged groups who often face chronic unemployment—including veterans, formerly incarcerated individuals, and recipients of government assistance programs.[8] Employers can claim up to $9,600 in tax credits for each qualified worker they hire from these groups, with the exact amount based on wages and hours worked. In 2023, there were 1.9 million WOTC certifications filed by businesses, meaning that up to

1.9 million people were hired from disadvantaged groups.[9] Yet, despite its nearly three-decade track record of helping employers offset labor costs, WOTC remains temporary.[10] Congress should extend this proven hiring incentive to provide continued support for both employers and job seekers.

4. Allow Small Businesses to Partner in Providing Child Care

As we recently noted, nearly 60% of small business owners who are parents said that the lack of affordable child care was a barrier to starting and growing their business.[11] The 45F Employer-Provided Child Care Credit aims to help businesses provide child care benefits, but its current structure often doesn't help small businesses. To qualify for the maximum credit of $150,000, businesses must spend $600,000—an unrealistic amount for most small firms.[12]

Recent bipartisan legislation from Senators Tim Kaine and Katie Britt, the *Child Care Availability and Affordability Act*, proposes to increase the credit to $500,000 and raise the percentage of expenses covered from 25% to 50%.[13] It also allows joint applications so small businesses can pool resources. Separately, the Bipartisan Policy Center also suggests allowing businesses to jointly contract with child care providers to share the credit.[14]

5. Extend the Paid Family and Medical Leave Credit

The 45S Employer Credit for Paid Family and Medical Leave was the first federal law designed to support paid leave in the United States. Originally championed by Senator Deb Fisher as a two-year trial within TCJA, the credit has been extended through 2025. The credit helps employers afford paid leave for their workers but falls short of a comprehensive federally funded paid leave program. Its impact is also limited by accessibility issues—large employers with more administrative resources and tax expertise use the credit more often than smaller businesses. [15]

To enhance the program's impact with small businesses, lawmakers should consider three changes: increasing the credit's value for businesses with fewer than 50 employees, directing the SBA and IRS to improve small business outreach and education, and adjusting eligibility requirements so that businesses in states with existing paid leave programs can receive the credit when they provide benefits beyond their state's offerings. These improvements, some of which are included in bipartisan legislation by Senators Fisher and Angus King to make the credit permanent, would create a more equitable system for small businesses. [16]

6. Double the Decades-Old Startup Deduction

Starting a business costs approximately $40,000, on average. [17] Currently, businesses can deduct up to $5,000 in startup and operating costs, including legal fees, state filing charges, market research, and advertising. But that still leaves a significant burden for entrepreneurs—especially those with less access to affordable capital. Congress should raise the deduction to $10,000 to better align with today's startup costs.

7. Reform Digital Payment Reporting Requirements

In the past, individuals who received $20,000 or more through a third-party payment app—like PayPal, Venmo, or Zelle—would have to register the money as income on a form known as 1099-K. However, the 2021 *American Rescue Plan Act* lowered this threshold to $600. [18] This means that a lot more small businesses will have to pay more taxes on income.

To ease this transition, the IRS announced a phased implementation: a $5,000 threshold for 2024, $2,500 for 2025, and $600 from 2026 onward.[19] Despite the IRS's gradual rollout, Congress should establish a permanent threshold more than $600 to support emerging entrepreneurs.

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