Bob Dole

NEWS FROM: U.S. SENATOR FOR KANSAS

SENATE MAJORITY LEADER

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DOLE UNVEILS SMALL EMPLOYER PENSION PROPOSAL
STATEMENT OF SENATE MAJORITY LEADER BOB DOLE
SENATE COMMITTEE ON SMALL BUSINESS

Mr. Chairman and members of the Committee, thank you for this opportunity to appear before you to discuss some of my ideas for addressing the tax issues affecting small business.

I commend this Committee for holding this hearing and for focusing the necessary attention on issues concerning small business. I would also like to use this opportunity to unveil the details of a small employer pension proposal I have developed.

Reducing Regulatory Burdens on Small Business

Small businesses are the heart and soul of America. They are responsible for the job creation in this country. It has been said that 99% of the five million businesses in this country are small businesses. But as you well know, here in Washington, not enough is done to take into account their concerns.

We need to reduce the regulatory burden on small business, to free entrepreneurs and other businessmen and women to devote their time and money to more productive uses. In the tax arena, for example, the IRS should be required to take into account the impact of its regulations on small business before requiring the businesses to comply with new rules.

Reform Current Tax System

One of the most constrictive regulatory burdens imposed by the federal government is the current income tax system. Taxpayers spend billions of hours and millions of dollars each year to comply with the tax system. And because the law is so complex, despite all of their time and effort, they are not even sure they have accurately complied!

We need to scrap the current tax system and replace it with one that is fairer, flatter, simpler, and with lower rates. And we must ensure that a reformed tax system does not increase the burden on the middle class.

Short of reforming the tax system, which we won't be able to fit into the schedule this year, we can and should change certain areas in the tax law to benefit small business. I would like to discuss briefly just five tax issues that are critical to the small business community.

Exclude Family-Owned Businesses From Estate Tax

First, we should exclude small, family-owned businesses from the estate tax. Working closely with many of the groups you have appearing before your committee, I have developed a bipartisan estate tax bill that exempts up to $1.5 million of a family-owned businesses from the estate tax.

My bill, the American Family-Owned Business Act, will help all family businesses, but will exempt practically all small, family-owned businesses from the estate tax. It will prevent family businesses from being liquidated simply to pay the estate tax. This way the business employees can keep their jobs and the families can retain their livelihood.

Lower Capital Gains Tax

Second, we should lower the capital gains tax to encourage investment in small business, and to spur economic growth and job creation. And we should make the capital gains relief available this year.

Incentive to Encourage Retirement Savings

Third, we should create a new incentive to encourage retirement savings for small business employees.

Only a very low percentage of small employers sponsor retirement plans for their employees. The onerous regulatory burden of the current retirement plan options and the cost of establishing and maintaining a plan are often cited as the main reasons that small employers do not offer retirement plans to their employees.

I propose to create a new savings incentive that would allow employees to contribute up to $6,000 to a retirement plan, with employers matching the employee contribution dollar-for-dollar, for a total annual

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contribution of $12,000. The entire contribution would be vested immediately in the employee.

There would be no additional employer contribution required, and employers would not have to follow burdensome nondiscrimination or so-called "Top Heavy" plan rules.

Employees would be eligible to contribute to the plan after they were employed for two years to address employer concerns about high employee turnover.

Savings Incentive Match Plan for Employees (SIMPLE)

I have attached to my testimony a short description of the plan, known as the SIMPLE pension plan -- the Savings Incentive Match Plan for Employees.

I am pleased to note that the SIMPLE pension proposal is supported by the National Federation of Independent Business, the U.S. Chamber of Commerce, the National Association of Wholesale-Distributors, the Small Business Council of America, the Investment Company Institute, the Securities Industry Association, the Profit Sharing/401(k) Council, and the Association of Private Pension and Welfare Plans.

Health Insurance Deductability for Self-Employed

Fourth, we should allow the self-employed to deduct the full cost of their health insurance premiums. Earlier this year we made permanent the partial deduction available to the self-employed and increased it from 25% to 30%. Now that the deduction is permanently available, we should work to increase it to the full 100% and give the self-employed the same benefits available to employees.

Increase Limit on Cost of Business Equipment

And fifth, we should increase the limit on the cost of business equipment that small businesses can expense in one year.

Thank you for this opportunity to appear before you and I look forward to working with you to enact these and other important small business initiatives.

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SAVINGS INCENTIVE MATCH PLAN FOR EMPLOYEES
The "SIMPLE" Pension Plan

1. SIMPLE is an optional plan for small employers (including the self-employed) who do not maintain a qualified retirement plan. A small employer is one with no more than 100 employees.

2. Eligible employees could contribute up to $6,000 each year. Employers would be required to match employee contributions dollar-for-dollar up to 3 percent of compensation, allowing employees to save up to $12,000 each year. No other employer contributions would be required.

3. SIMPLE accounts would not be subject to nondiscrimination or "Top Heavy plan" rules.

4. All full-time employees would be eligible to make contributions to the plan, but only after they are employed for two years.

5. An employer could establish a separate SIMPLE account for each employee as an individual retirement account (IRA), or one qualified trust for all employee contributions. Establishing a trust would be at the employer's option and would be subject to the qualified plan trust rules.

6. Both employer and employee contributions would be fully vested in the employee and excluded from the employee's income. The employer's contribution would not be subject to federal payroll taxes.

7. An employer could reduce its 3 percent matching contribution limit to a smaller percentage of compensation, but only if the reduction is announced to SIMPLE plan participants before the beginning of the year and the reduction applies to all the participants.

8. Distributions from SIMPLE accounts would be taxed the same as those from an IRA (if the IRA form is used), or from a qualified plan (if the qualified plan option is elected).

9. As with IRAs, early withdrawals from a SIMPLE account would be subject to a 10% penalty. Withdrawals during the first two years in which an employee participates in the IRA form of a SIMPLE account would be subject to a higher early withdrawal tax.

10. The SIMPLE plan is intended to complement other savings initiatives, such those to expand IRAs or simplify existing pension plan rules.