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July 19, 2022

The Honorable Kyrsten Sinema
317 Hart Senate Office Building
Washington, DC 20510

The Honorable Mark Kelly
506 Hart Senate Office Building
Washington, DC 20510

Re: Danger of Increased Taxes on Pass-Through Small Businesses

Dear Senator Sinema and Senator Kelly,

I am glad the U.S. Senate Majority Leader did not move forward with this month's proposal to raise taxes on S corporations to pay for a reconciliation measure. However, I remain concerned that a fundamental misunderstanding of small business finances will lead to the imposition of more taxes, particularly on pass-through entities like S corporations, partnerships, and limited liability companies (LLCs).

I am writing to caution against raising taxes on gains realized by small enterprises, particularly when Phoenix is experiencing one of the highest inflation rates in the nation and a growing number of small business owners expect a recession within the next twelve months.

As a former investment banker and pitch competition judge, I've reviewed thousands of business plans and heard countless pitches from entrepreneurs across the globe.

As a startup advisor and capital strategist, I've helped hundreds of small business owners build their plans for growth, quantify their capital needs and explore potential sources of funds.

This, as well as my experience as a second-generation entrepreneur and member of the US Chamber of Commerce's Small Business Council, has repeatedly demonstrated the commitment of entrepreneurs across industries and geographies to providing good jobs and reinvesting in their community.

Preserving small business owners' right to use the gains from their enterprises without additional taxation helps Arizonans in three distinct ways:

- 1) *Personal cash reserves ensure the survival of those businesses and the jobs they provide*
 - a. According to the recent [Trust & Access to Capital survey \(Reimagine Main Street\)](#), personal reserves are the #1 source of funding for entrepreneurs when financial challenges arrive
 - b. One byproduct of a recession is tighter credit and higher interest rates, and in a recession, personal reserves become even more essential for small business survival
 - c. Arizona small businesses are already facing larger financial challenges as inflation has risen to over 12%, labor markets remain tight and global issues continue to impact supply chains

- 2) *Personal cash reserves offer an alternative to outside capital for continued growth and reinvestment in our local economy*
 - a. The small business owners I work with care deeply about their employees and their clients - and they want to grow their businesses here in Arizona
 - b. Building a personal cash reserve offers the quickest path to growth, since the business owner can reinvest in their own business without waiting for loan approval or an equity investor's due diligence to be completed
 - c. This is especially important for the growth of the [44k female owned, 18k minority owned and 10k veteran owned employer businesses in Arizona](#) who may not be able to access outside capital in a timely manner for short-term cash issues and expansion plans

- 3) *Personal cash reserves make ecosystem building and angel investing possible*
 - a. Arizona entrepreneurs want to give back – they invest in other companies while still running their own businesses, [commit their own equity to the community](#) and give their time and money to support new entrepreneurs at local events like Startup Week
 - b. According to the [Angel Capital Association's recent study](#), 55% of angel investors have been a founder or CEO of their own startup
 - c. Recently expansion of national angel groups into our state (like [Golden Seeds](#)) rely on their ability to recruit new members. Limiting the available pool of capital for these groups by additional taxation of successful entrepreneurs is, at best, short-sighted

Arizona is becoming known as an exciting place to start and grow a business, as evidenced by our [ranking by Startup Genome as the 20th most attractive emerging startup ecosystem in the world](#), which gives us a unique opportunity to diversify our state's economy and population through entrepreneurship.

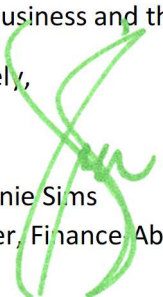
Raising taxes on small business gains ignores the reality of how small business owners re-invest their gains back into their businesses and their communities.

Penalizing those small business owners who wisely build cash reserves to face the financial difficulties that recession brings will not only harm those individuals and their families, but also imperil the employment they have already created and potential additions to their staff.

Please resist the temptation to slow our state's entrepreneurial momentum by raising taxes on S corps and other small business pass-through entities.

Feel free to reach out to me for additional information that would help congressional leaders understand my small business and the businesses I serve.

Sincerely,



Stephanie Sims
Founder, Finance Ability