



August 11, 2022

The Honorable Nydia Velazquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Blaine Luetkemeyer
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairwoman Velazquez and Ranking Member Luetkemeyer:

When I was the Administrator for the Small Business Administration, I very much respected your sincerity and deep commitment to the 33 million small businesses in our Nation, recognizing that they contribute about 41% of our Nation's economy. I enjoyed our work together and appreciated the bipartisan consideration of the bills which affected not only our small businesses but ultimately the health of our economy. It is with this backdrop that I urge you and your colleagues to consider the short-term and long-term impacts of the "Inflation Reduction Act" on the many hardworking business owners throughout our country, many of whom are still struggling coming out of the pandemic. When asked about its impact on inflation, White House economist Jared Bernstein said the country could see a drop of "*one-third of 1%.*" That's .00333%. Other estimates, such as the Penn Wharton analysis, indicate the bill will worsen inflation in the short term. Even if you accept the White House assessment as accurate, it is difficult to imagine that this fraction can be truly significant in the face of a three-quarters of a trillion-dollar bill.

As I know you do, I examine all legislation, not only how it will affect working Americans but to see where the voices of small businesses are on these issues. It should come as no surprise they are raising alarms and sending warning signals. As Kevin Kuhlman of the National Federation of Independent Businesses (NFIB), the country's largest small business advocacy group, put it, "*[a]s expectations for better business conditions is currently, at a historic low in the 48-year history of NFIB's survey, a better approach for small businesses would be legislative and regulatory certainty, including no direct or indirect tax increases on businesses and relief from regulations and mandates that increase the cost of doing business.*" Small businesses are reporting staff cuts, a sharp drop in revenue expectations, and the harmful effect that increased regulations are having on productivity. Many of those same small businesses point to inflation as a chief contributing factor to much of this unease, and it just doesn't stand to reason that spending three-quarters of a trillion dollars to engineer, at best, a long-term drop of .00333% in inflation makes much sense.

And while these small businesses are in the thick of these difficult economic circumstances, this bill adds yet another measure to their significant burden: \$80 billion (with a B!) and 87,000 agents to the Internal Revenue Service enforcement staff. No one is disputing that legitimate violators should be held accountable, but we all know that many of these inquiries and audits result in immaterial revenue to the government—if anything. But in the interim, it has been estimated that this might increase small business audits by 50%. That means there will inevitably be countless entrepreneurs that have "clean audits" but will nevertheless be forced to lay people off or close their businesses because of the overwhelming cost of simply responding to what can seem like endless requests for information. Even if they have done nothing wrong, these small business owners have no choice but to—as best they can—engage with a heavily-resourced and seemingly endless team of federal government lawyers and accountants. It is difficult to

imagine how this environment of heavy regulation and government action—especially with no tangible drop in inflation to accompany it—can provide any meaningful support for these small businesses. In fact, Small Business and Entrepreneurship Council CEO Karen Kerrigan has stated it *“could do the opposite [increase inflation], as businesses will be less inclined and incentivized to invest and therefore supply will be inhibited.”*

Contrary to the White House’s predictions, more than 360 economists recently signed a letter attesting to the inflationary effect of the bill’s spending and tax hike provisions. These inflationary forces will significantly impact the small business community, which must contend with rising gas prices and healthcare costs, among other areas, thereby limiting economic opportunities for small businesses looking to grow out of the pandemic. As seen in the time before the pandemic, an economic environment that cuts regulation and encourages access to affordable capital provides an optimal scenario for small business productivity.

Mandates and heavy legislative burdens hold back these small businesses and stifle their ability to serve as the true engines of our economy. By dictating to them what they need—without listening to what they need, such as solutions to supply chain issues, the cost of goods, and general economic certainty—the “Inflation Reduction Act” is heavy-handed, inconsistent with democratic principles, and (worst of all) may simply shut down the American dream of these entrepreneurs.

Thank you for your commitment to the small business community, and I urge you to question how the “Inflation Reduction Act” will achieve its stated goals for our country.

Sincerely,



Linda E. McMahon
Chair of the Board
America First Policy Institute

Cc:

Speaker Nancy Pelosi
Majority Leader Steny Hoyer
Minority Leader Kevin McCarthy
Minority Whip Steve Scalise
Chairman and Ranking Member, U.S. House Committee on Budget
Chairman and Ranking Member, U.S. House Committee on Energy and Commerce
Chairman and Ranking Member, U.S. House Committee on Ways and Means