September 11, 2014

The Honorable John Boehner  
Speaker  
H-232, U.S. Capitol  
Washington, DC 20515

The Honorable Nancy Pelosi  
Minority Leader  
H-204, U.S. Capitol  
Washington, DC 20515

The Honorable Kevin McCarthy  
Majority Leader  
H-329, U.S. Capitol  
Washington, DC 20515

The Honorable Steny Hoyer  
Minority Whip  
H-148, U.S. Capitol  
Washington, DC 20515

The Honorable Steve Scalise  
Majority Whip  
H-207, U.S. Capitol  
Washington, DC 20515

Dear Speaker Boehner, Majority Leader McCarthy, Majority Whip Scalise, Minority Leader Pelosi and Minority Whip Hoyer:

We write to ask that you preserve the cash method of accounting for partnerships, pass-through entities, personal-service companies, farmers and ranchers. Proposals requiring a transition from the cash method of accounting to the accrual method of accounting will have a severely detrimental impact on thousands of businesses in our districts. Those who use the cash method of accounting include many of our local job creators and professionals including accountants, architects, attorneys, dentists, engineers, farmers, physicians and financial service professionals. Importantly, the cash method of accounting is the foundation upon which these businesses have built their business models for decades.

The cash method of accounting is a simple method in which income is recognized when it is collected. By comparison, the accrual method of accounting recognizes income when a service is performed, regardless of when cash is collected. Personal service companies, pass-through entities, partnerships, farmers and ranchers rely on the cash method because they typically do not have the benefit of matching revenues to expenses, many of which are fixed. Further, the timing for receiving payment is unknown; in fact, payment may not be received for months or years after a product or service is delivered, or it may never be received at all. Under the accrual method, these businesses would be required to pay taxes on income they have not yet received, resulting in these individuals possibly being taxed at a higher tax bracket, or subject to additional taxes. If forced to pay taxes before income is received, as would be required under the accrual method, less money would be available to small businesses for growth and job creation. Additionally, cash flow management becomes far more complex as a result, and will likely trigger the need for additional outside financing. These factors alone would have a significant negative impact on our local economies.

Currently, individuals, certain pass-through entities, and personal service corporations may use the cash method of accounting regardless of size. Generally, C Corporations may use the cash method if average annual gross receipts do not exceed $5 million. While the recent tax reform proposals to increase the threshold to $10 million for C Corporations are encouraging and acknowledge the benefits of the cash
method for small businesses, the newly proposed $10 million limit on other entities will discourage growth for businesses that would otherwise expand beyond the threshold either independently or through mergers.

The burden of switching to accrual accounting will be particularly acute in the agriculture sector. Farmers and ranchers rely on the flexibility of cash accounting to accelerate expenses or defer income—a tool that helps farm businesses cope with volatile commodity prices and weather conditions. Cash accounting gives farmers and ranchers the flexibility they need to manage their tax burden. Requiring agricultural businesses to shift to accrual accounting would likely dramatically reduce working capital and equity available for investment, as well as increase complexity and decrease flexibility for many agricultural businesses.

Many current cash accounting users will be required to take out loans or divert capital that otherwise would be used to grow their businesses in order to pay for this tax increase. It is important to note that several of the adversely affected business sectors are subject to state laws or professional ethics rules which provide structuring requirements or impose other limitations on the ways in which the firms can obtain financing. For example, firm ownership for accountants is restricted by state laws to individuals who actively participate in the business; thus, these firms cannot obtain outside investment capital. Similarly, lawyers must comply with state court ethics rules that generally prohibit them from forming a law firm partnership with a non-lawyer or allowing a non-lawyer to own any interest in the law firm. Therefore, these individual business owners would have to personally shoulder their firms’ increased financial burden to pay their taxes earlier under the accrual method.

While we believe reforms to the tax code should provide a simpler and fairer tax system, requiring the use of the accrual method for entities currently using the cash method will not achieve these goals. As we seek to best represent the concerns of the constituents in our districts, we strongly urge you to preserve the cash method of accounting.

Sincerely,

[Signatures]

[Name]

[Name]