



Congress Should Pass Tax Provisions Which Bolster Main Street Small Businesses

ISSUE

The Tax Cuts and Jobs Act (TCJA) was a historic rewrite of the tax code and many of its provisions are set to expire at the end of this year. These pro-growth policies helped foster business investment and create jobs across the country in many industries, including the automotive sector. Small-business auto dealerships employ more than 1.1 million individuals and generate significant state and local tax revenue. **The upcoming reconciliation bill should continue to encourage small businesses to support and invest in their employees and local communities across the country.**

BACKGROUND

NADA supports extending or modifying the following tax provisions:

Maintain equivalence for pass-through entities by making the Sec. 199A deduction permanent. Congress created the Section 199A deduction for pass through businesses to level the playing field with the reduced corporate rate of 21%. This deduction applies to 20% of qualified businesses income. Most dealerships are organized as pass-through entities, which results in a blended tax rate, split between wage income and business profits. If Congress does not act, the top marginal rate for many small businesses could jump from an effective rate of 29.6% back to a top marginal rate of 39.6%. NADA supports Rep. Lloyd Smucker (R-Pa.) and Sen. Steve Daines' (R-Mont.) legislation ([H.R. 703/S. 213](#)) to make this deduction permanent.

Preserve current estate tax limits. The estate tax can force the sale of dealership assets and destroy the viability of family businesses. This tax particularly impacts dealerships since expensive assets, such as land and showroom facilities cannot be easily liquidated to pay the tax. The TCJA doubled the estate and gift tax exemption limits (currently at \$13.99 million per single filer and \$27.98 million per married couple). NADA supports Rep. Randy Feenstra (R-Iowa) and Senate Majority Leader John Thune's (R-S.D.) legislation ([H.R. 1301/S. 587](#)) to repeal the estate tax.

Restore business interest deduction limits to pre-2022 levels (Sec. 163(j)). Prior to 2022 under TCJA, business interest deduction limits included the cost of depreciation and amortization. Auto dealers rely heavily on debt financing to manage their inventory and often have high capital expenditures. The new interest deduction limits are calculated on EBIT rather than EBITDA, and effectively raised the tax burden for many small businesses. NADA supports Rep. Adrian Smith (R-Neb.) and Sen. Shelley Moore Capito's (R-W.Va.) legislation ([H.R. 1347/S. 559](#)) to reinstate EBITDA as the basis for interest limit deductions.

Restore 100% bonus depreciation (Sec. 168(k)). To bolster investment, the TCJA included bonus depreciation which enabled businesses to deduct certain investments more quickly than under previous law. Through 2022 the TCJA allowed 100% bonus depreciation, but it was then phased out by 20 percentage points per year. Congress should restore 100% bonus depreciation to help dealers invest in facilities, equipment and workers. NADA supports Rep. Jodey Arrington (R-Texas) and Sen. James Lankford's (R-Okla.) legislation ([H.R. 574/S. 187](#)) to permanently restore 100% bonus depreciation.

KEY POINTS

- **Congress should make the Sec. 199A deduction permanent to maintain equivalence with the corporate tax rate.** Most franchised new car dealers are considered small businesses as defined by the Small Business Administration. Auto dealerships employ more than 1.1 million individuals and generate significant state and local tax revenue.
- **At a minimum, Congress should preserve the current estate tax limits to provide the financial stability for long-term investment** and ensure that small businesses can continue to serve their communities for the next generation.
- **Congress should reinstate EBITDA as the basis for business interest deduction limits and reinstate bonus depreciation levels to encourage capital investment in the U.S. economy.** Pro-investment provisions like a return to EBITDA and bonus depreciation would allow small business dealers to continue to upgrade their facilities and invest in their employees, as the auto industry faces rising challenges due to high interest rates, worker shortages and tariffs.

STATUS

Congress is working to address these provisions in the upcoming reconciliation bill, before expiring provisions revert to their pre-2017 levels at the end of the year.

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