



Floor Speech of Senator Chuck Grassley
on Proposed Small Business Tax Increases
Wednesday, July 15, 2009

I want to address the tax hikes on small businesses that President Obama and my colleagues on the other side of the aisle have proposed. The latest tax hike proposal is the House Democrats' graduated surtax of up to 5.4 percent on those making over \$280,000. For those Americans that are married but file separate returns, this surtax increases taxes for those making over \$175,000. I refer to this surtax as the small business surtax, because it hits small business particularly hard.

Here's how the House's small business surtax works. In 2011 and 2012, singles making between \$280,000 and \$400,000 will pay an extra 1 percent. Those singles making between \$400,000 and \$800,000 will pay an extra 1.5 percent, and those singles making more than \$800,000 will pay an extra 5.4 percent. Then, in 2013 and after, these rates go to 2 percent, 3 percent and 5.4 percent, respectively.

The only way the rates don't go up to these levels is if one of the President's advisors, the Director of OMB, says in 2012 that there will be more than \$675 billion in health care savings by 2019. That's right, the House leaves this up to a partisan Presidential advisor, not a nonpartisan organization like CBO.

Another troubling aspect of this charade is that this doesn't deal only with actual savings achieved, but instead calls for a partisan's 2012 estimate of savings to be achieved through 2019. Joint Tax correctly ignores this charade in its estimate of the House small business surtax, and correctly assumes that the rates will go up in 2013.

In 2011 and 2012, for married couples, the small business surtax kicks in at 1 percent for those making \$350,000 to \$500,000. It rises to 1.5 percent for married couples making between \$500,000 and \$1 million, and goes up to 5.4 percent for those making over \$1 million. Then, in 2013 and later, the rates go up to 2 percent, 3 percent, and 5.4 percent, respectively. As discussed above, the only way these rates don't go up in 2013 is if the OMB Director decides they shouldn't go up.

I now want to discuss small business. Small business is vital to the health of our economy. The President and I agree that 70 percent of new private sector jobs are created by small businesses.

However, where we differ is that I believe small businesses' taxes should be lowered, not raised, to get our economy back on track.

In 2001 and 2003, Congress enacted bipartisan tax relief designed to trigger economic growth and create jobs by reducing the tax burden on individuals and small businesses. This included an across-the-board income tax reduction, which reduced marginal tax rates for income earners of all levels.

It also included a reduction of the top dividends and capital gains tax rate to 15 percent, and a gradual phaseout of the estate tax. Unfortunately, like many of the other provisions enacted in 2001 and 2003, these tax relief measures are scheduled to expire at the end of 2010.

Some have referred to this bipartisan tax relief as "the Bush tax cuts for the wealthy". However, this tax relief was bipartisan and provides tax relief for all taxpayers. They have also suggested that the tax relief provided for higher-income earners, including many small business owners, should be allowed to expire.

The President and my colleagues on the other side of the aisle have proposed increasing the top two marginal tax rates from 33 and 35 percent to 36 and 39.6 percent, respectively.

They have also proposed increasing the tax rates on capital gains and dividends to 20%, and providing for an estate tax rate as high as 45 percent and an exemption amount of \$3.5 million.

Also, the President and Congressional Democrats have called for fully reinstating the personal exemption phaseout, known as PEP, for those making over \$200,000.

In addition, they have called for fully reinstating the limitation on itemized deductions, which is known as Pease, for those making over \$200,000. Under the 2001 tax law, PEP and Pease are scheduled to be completely phased out in 2010.

However, like other provisions in the law, PEP and Pease are scheduled to come back in full force in 2011 if Congress fails to act. With PEP and Pease fully reinstated, individuals in the top two rates could see their marginal effective tax rate increased by 24 percent or more.

For example, a family of four that is in the 33 percent tax bracket in 2010 could pay a marginal effective tax rate of 41 percent after 2010 because of PEP and Pease. And this rate would go higher if that family had more children. And this is before the small business surtax is even factored in.

Some of my colleagues on the other side of the aisle have defended this proposal by claiming they will only raise taxes on "wealthy" taxpayers who make over \$200,000 a year. For the vast majority of people who earn less than \$200,000, raising taxes on higher earners might not sound so bad.

However, this means that many small businesses will be hit with a higher tax bill. These small businesses happen to create 70 percent of all new private sector jobs in the United States.

These small businesses that are sole proprietorships, S corporations, partnerships, and LLCs would get hit with the President's proposal to raise the top two marginal tax rates if their owners make over \$200,000. In addition, there are just under 2 million small C corporations that are subject to double taxation.

To the extent these C corporations' owners make over \$200,000 and pay themselves a salary, they would get hit with the tax increase on the top two marginal tax rates proposed by the President and Congressional Democrats.

Also, owners of small C corporations that receive dividends or realize capital gains and make over \$200,000 would pay a 20 percent rate on these dividends and capital gains after 2010 under these tax hike proposals. Currently, they pay a rate of 15 percent on these capital gains and dividends.

As if this wasn't bad enough for small business, the House Democrats have proposed a graduated surtax of up to 5.4 percent on those making over \$280,000. With this small business surtax, a family of four in the top two brackets will pay a marginal tax rate of in the range between 43 and 46.4 percent in 2013. This would result in an increase of the marginal tax rates by a minimum of 23 percent and a maximum of 33 percent.

Candidate Obama pledged on the campaign trail that, quote, "Everyone in America—everyone—will pay lower taxes than they would under the rates Bill Clinton had in the 1990s." The small business surtax proposed by the House Democrats would violate President Obama's pledge. Therefore, I stand with President Obama in opposing the small business surtax proposed by the House Democrats.

According to NFIB survey data, 50 percent of owners of small businesses that employ 20 to 249 workers would fall in the top two brackets. According to the Small Business Administration, about two-thirds of the nation's small business workers are employed by small businesses with 20-500 employees.

Do we really want to raise taxes on these small businesses that create new jobs and employ two-thirds of all small business workers?

The NFIB recently came out with its June report that showed that small businesses continue to have net job losses as well as reduced compensation for those that are still on the payroll. With these small businesses already suffering from the credit crunch, do we really think it's wise to hit them with the double-whammy of up to a 33 percent increase in their marginal tax rates?

Newly developed data from the Joint Committee on Taxation demonstrates that 55% of the tax from the higher rates will be borne by small business owners with income over \$250,000.

This is a conservative number, because it doesn't include flow-through business owners making between \$200,000 and \$250,000 that will also be hit with the Democrat Budget's proposed tax hikes.

If the proponents of the marginal rate increase on small business owners agree that a 23 percent to 33 percent tax increase for half of the small businesses that employ two-thirds of all small business workers is not wise, then they should either oppose these tax increases, or present data that show a different result.

I will fight for a lower estate tax rate and a higher estate tax exemption amount to protect successful small businesses. In a time when many businesses are struggling to stay afloat, it does not make sense to impose additional burdens on them by raising their taxes. Odds are, they'll cut spending.

They'll cancel orders for new equipment, cut health insurance for their employees, stop hiring, and lay people off. Instead of seeking to raise taxes on those who create jobs in our economy, our policies need to focus on reducing excessive tax and regulatory barriers that stand in the way of small businesses and the private sector making investments, expanding production, and creating sustainable jobs.

I will continue to fight to prevent a dramatic tax increase on our nation's job engine – the small businesses of America.

This includes working to protect small businesses from higher marginal tax rates, an increase in the capital gains and dividends tax rate, and an increase in the unfair estate tax rate that will penalize the success of small businesses. In fact, I have recently introduced S. 1381, the Small Business Tax Relief Act of 2009, to lower taxes on these job-creating small businesses.

My bill contains a number of provisions that will leave more money in the hands of these small businesses so that these businesses can hire more workers, continue to pay the salaries of their current employees, and make additional investments in these businesses.

The NFIB has written a letter supporting my bill, stating, quote, "To get the small business economy moving again, small businesses need the tools and incentives to expand and grow their business. S. 1381 provides the kinds of tools and incentives that small businesses need."

Mr. President, we all want to see the job numbers from the Department of Labor moving in a positive direction. We all want to see the unemployment rate plummet. I firmly believe that the best way for us to do that is to prime the job-creating engine of our economy by focusing on small businesses. My small business bill, if enacted, will lead to new jobs. These will be real, countable, verifiable jobs that will put people to work and get the economy moving.

In contrast, President Obama and my colleagues on the other side of the aisle have proposed tax increases that will cause small business jobs to be lost. The newest tax hike proposal is the small business surtax. As with other tax hikes on small business, I oppose the small business surtax. I urge my colleagues on BOTH sides of the aisle to do the same. I ask unanimous consent that the NFIB letter in support of my bill be entered in the record.