

United States Congress

MEMORANDUM

To: Reporters and Editors
Fr: Jill Gerber (Grassley), 202/224-6522, Sage Eastman, Jim Billimoria (Camp), 202/226-4774
Re: Effect of President Obama's and congressional Democrats' proposed tax increases on small business activity
Da: Thursday, April 23, 2009

Sen. Chuck Grassley, ranking member of the Committee on Finance, and Rep. Dave Camp, ranking member of the Committee on Ways and Means, are concerned that the White House and Democratic congressional leaders are minimizing the job impact of increasing taxes on certain small business owners, as proposed in the President's budget. Grassley and Camp released an analysis of the impact and issued a comment. Here is their comment:

“The President and Republicans agree that 70 percent of new jobs will come from small businesses. Yet, the stimulus contained very little tax relief for small businesses -- less than one-half of one percent of the stimulus bill. The TARP bailout did almost nothing, and that is confirmed in part by reports from the Federal Reserve indicating that 70 percent of large banks have decreased small-business lending. Now the President wants to increase taxes on some small businesses, even though they're most likely to create jobs. This comes as these businesses are already pessimistic about their hiring abilities. Their outlook is the worst in years. Most notably, small business hiring plans are the worst in the 35 years of the NFIB's survey of small businesses. If small business owners are hit with a tax increase, we can say good-bye to a chunk of new and existing jobs. Those who say only a handful of small business owners will face a tax increase need to wake up and smell the coffee.”

Here is the Grassley-Camp analysis:

Small Business Owners Will Pay More than Half the Taxes From Higher Marginal Rates: According to the non-partisan Joint Committee on Taxation, in 2011, the President would tax \$88 billion of net positive business income at the 36 percent rate and \$349 billion at the 39.6 percent rate. This tax increase would raise \$18.694 billion in 2011. Multiplying this over ten years suggests the proposed higher marginal rates are likely to cost small business owners somewhere in the neighborhood of \$187 billion over the ten-year budget window. That equates to roughly 55 percent of the revenue raised under the President's proposed higher marginal tax rates coming from tax increases on net positive small business income (\$187 billion out of \$338.76 billion). Moreover, the Joint Committee on Taxation found that approximately half of the income (47%) targeted

by the President's marginal tax rate increase proposals in 2011 would be earned by small business owners. This data is consistent with Gallup survey results showing that approximately half of the small business owners who employ 20 or more workers would be hit by the marginal tax rate increases proposed by the Administration and congressional Democratic leadership. These small businesses with 20 or more workers employ nearly two-thirds of all small business workers, according to Small Business Administration data.