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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510–6200

July 19, 2022

Dear Colleague:

Runaway inflation, fueled by the Democrats' $1.9 trillion spending spree from last year, continues to strain Americans' paychecks. In June, the consumer price index accelerated to 9.1 percent and wholesale price inflation—which has been in double digits for seven consecutive months—surged to 11.3 percent.

Americans are reeling from pain at the pump, shock in the grocery aisles and continued rapid erosion of their paychecks. Buying a house is becoming increasingly out of reach for many families as the Federal Reserve has been saddled with the need to raise interest rates to choke off demand because of the overheating that followed last year's massive stimulus.

As the economy continues to be hammered by runaway inflation, declining real wages, and rising odds of a recession and stagflation, the prospect of raising taxes, killing jobs, smothering wages and imposing price controls defies all logic and common sense.

Nonetheless, in the face of increasingly troubling economic conditions, Democrats are advocating using partisan budget tools to raise taxes. Those taxes will hit the middle class and small- and medium-sized businesses at a time of rising interest rates, high risks of recession, and a rising stealth inflation tax that has hit every American since the middle of last year. According to the nonpartisan Joint Committee on Taxation, those tax hikes will also hit taxpayers earning far less than $400,000, in direct violation of the President's repeated pledge that such taxpayers will not pay even a penny more in taxes.

The Biden Administration proposed at least $2.5 trillion of tax hikes in the President's most recent budget. This, on top of the House-passed reckless Build Back Better bill, which contained more than $1.5 trillion of tax hikes. Now, numerous news stories report that Senate Democrats are actively resurrecting their flawed Build Back Better scheme, with tax hikes on the order of $1 to $1.5 trillion.

As the details of the proposed tax hikes emerge, it remains that raising taxes on the order $1 trillion or more as the economy faces very real risks of a recession is driven by politics and certainly not by what is in the best interest of American families. While economists and politicians argue about whether there is or will be a recession based on statistical minutia, Americans at this very moment overwhelmingly feel like we are in a recession and the economy continues to accelerate in the wrong direction.

One of the job-killing tax increases under consideration for the resurrected version of the Build Back Better scheme is an expanded Net Investment Income Tax, or NIIT, on so-called "pass-through businesses," which are businesses whose income passes-through to an owner's tax return. Originally enacted as part of Obamacare in 2010, the NIIT is a 3.8 percent tax that primarily taxes passive income.

Media reports indicate the resurrected Build Back Better scheme aims to expand the NIIT to now apply to active pass-through business income, or what is left over after a business pays its expenses. This **small business tax surcharge** would be **in addition** to the income taxes of up to 37 percent that owners already pay on their net earnings—a tax they pay regardless of whether they distribute the money to themselves or leave it in the business for future needs. An expanded NIIT would mean an up to 40.8 percent marginal tax rate for some, even before state income taxes are considered. Regarding state income taxes, 43 states have an individual income tax, with an average top marginal rate of 6.4 percent. Adding federal and state income tax liabilities together would **result in a 47.2 percent top marginal tax rate** for many pass-through owners.

Ultimately, NIIT expansion is a **small business surcharge** that punishes hard work, investment, growth, and successful small- and medium-sized businesses by stripping away close to half of what an owner makes. It would particularly penalize small businesses who are able to achieve even moderate success, and indeed penalize that success. It also doubles down on penalizing marriage by treating business owners with joint filing spouses more harshly than those who are not married.

A recent letter from the Main Street Employers, signed by more than 190 organizations representing a wide range of industries reveals this **small business surcharge** will cut into a wide swath of businesses and occupation types. Hitting those businesses with a massive new tax hike, which the nonpartisan Joint Committee on Taxation estimates to be $252 billion, will hurt the very people Democrats say they champion—workers and those with incomes well below $400,000, as well as businesses already recovering from the pandemic, massive inflation and worker shortages.

Sincerely,

Mike Crapo
U.S. Senator

Charles E. Grassley
U.S. Senator

John Cornyn
U.S. Senator

John Thune
U.S. Senator

Richard Burr
U.S. Senator

Pat Toomey
U.S. Senator

Bill Cassidy, M.D.
U.S. Senator

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Todd Young
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John Barrasso, M.D.
U.S. Senator