



The charts that Senator Grassley referred to are available at finance.senate.gov.

Senator Grassley Floor Speech
Proposed Small Business Tax Increases In House Democrats Health Reform Bill
Delivered November 5, 2009

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.

The President and my colleagues on the other side of the aisle have proposed increasing the top marginal tax rates from 35 percent to 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 phase-out, 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. That means the tax rate for current 35% rate taxpayers

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. As if this wasn't bad enough for small business, the House Democrats have proposed a new surtax of 5.4 percent. With this small business surtax, a family of four in the top bracket will pay a marginal tax rate of 46.4 percent in 2011. This tax change would result in an increase of the marginal tax rate by 33 percent.

Owners of many small businesses, whether small regular, so-called "C" corporations or other entities that receive dividends or realize capital gains would face a 25.4 percent rate under the House bill. Currently, they pay a rate of 15 percent on these capital gains and dividends. The combination of the Democratic Leadership's budget and the House surtax means this marginal tax rate would rise by almost 70 percent on January 1, 2011.

Candidate Obama pledged on the campaign trail that, “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?

In his radio address a few months ago, the President noted that small businesses are hurting. No argument from this side of the aisle on that point. President Obama recognized the credit crunch on small business continues despite hundreds of billions in bailout money to big banks. 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 a 33 percent increase in their marginal tax rate?

Just two days ago we received data from the nonpartisan official congressional tax scorekeepers, the Joint Committee on Taxation, that said that one out of every three dollars raised by the massive \$461 billion House surtax would come from small businesses. And that’s a conservative estimate, because other kinds of income that these business owners receive, such as capital gains and dividends, aren’t included in this one-third figure.

If the proponents of the marginal rate increase on small business owners agree that a 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.

This House surtax piles on the heavy taxes small businesses will face. In a time when many businesses are struggling to stay afloat, does it 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. I hope my friends on the other side here in the Senate are listening. I ask unanimous consent that the Joint Tax estimate be printed in the record.