



Congress should not allow small business owners to pay for overspending (Sen. Charles Grassley)

By Sen. Charles Grassley (R-Iowa) - 09/13/10 10:11 AM ET

During the August recess, I heard the anxiety of small business owners all over Iowa.

Their anxiety comes from the bad economy and uncertainty over their tax rates and health care expenses.

Key tax decisions are down to the wire, and there's good reason for concern.

In the next month, the Senate is expected to consider whether to prevent a number of tax increases that will occur on January 1, 2011, unless Congress acts to stop them. One of the tax increases the President is proposing is an increase of the tax rates for the top two tax brackets.

With unemployment at 9.6 percent, Congress should not allow tax rates to increase to pay for Washington's overspending. Congress should permanently prevent all of the tax hikes that are currently scheduled to occur on January 1, including those for the top two tax brackets. If this isn't done, half of all flow-through business income will get hit with a tax increase, according to the non-partisan Joint Committee on Taxation.

This is especially harmful to small businesses because most of them operate as flow-through entities, which are S corporations, limited liability companies, partnerships and sole proprietorships. These businesses are called flow-through entities because the income earned by the business flows through the business onto the business owner's individual tax returns (the individual, not the business, is taxed).

The proposed tax increases would make the already terrible unemployment rate even worse.

Small businesses create 70 percent of new jobs. There are more than 20 million jobs in these types of businesses that will get hit with tax increases on the top two brackets if Congress doesn't act to prevent that from happening. The tax increases will cause small businesses to lay off some of their current employees and will prevent some of the new hiring that would have occurred in the absence of these tax increases.

President Obama proposes making the research and development tax credit permanent and allowing businesses to expense certain property purchases through the end of 2011.

Similarly, a small business bill pending in the Senate contains several provisions that are meant to jumpstart business growth.

But these tax proposals would not make up for the damage that would be done to small businesses if the top two tax rates were increased.

The President's research and development and expensing proposals mainly benefit large corporations. His two tax proposals are relatively small in terms of their effect on small businesses, when compared to the proposed rate hike on the top two brackets, which is a 17 to 24 percent increase of the marginal tax rate on half of all flow-through business income in the United States.

The small business bill before the Senate has tax provisions that could be helpful if made permanent, as most of them were in my small business tax relief bill, S. 1381, which was the basis for most of the tax provisions in the pending bill. Unfortunately, the provisions are now temporary, for just one year. In addition, I pushed to have the provision from my bill that would provide small businesses with a 20 percent deduction off of their small business income, but the Senate Democratic leaders refused to include that provision in their bill. That was the largest-dollar, most important provision in my bill. It would have been the most useful for small businesses. It's disappointing it's not in the bill before the Senate.

Providing a small amount of tax relief to small businesses and hitting them with a very large tax increase is not a fair tradeoff. It's like giving these employers a few peanuts and taking away their supper. Job creation will suffer.

Congress should first do no harm and not raise taxes on small businesses. This will allow small business owners to keep more of their money so they can hire new employees, continue to pay existing employees, and make new business investments that help our economy. Then, after Congress has made sure that small businesses' taxes aren't going up, Congress should look at ways to cut those taxes, so that small businesses can continue to keep more of their

own money and help spark economic growth, rather than simply send that money to Washington to spend.

The majority party argues that tax relief for the top brackets is unaffordable. Yet even if all of the 2011 across-the-board tax hikes were stopped forever, the level of federal tax receipts would still exceed historic norms. The source is the official scorekeeper, the Congressional Budget Office.

So, the problem isn't insufficient taxation. The problem is excessive government spending. Projections are for long-term government spending to be about 24 percent of the gross domestic product. This greatly exceeds any historic norms.

A new poll says 7 in 10 Americans have a relative or close friend who has lost a job since the beginning of the recession in 2007.

There couldn't be a worse time to raise taxes on employers who create jobs.