

## The Business Case for Letting High-End Tax Cuts Expire

*"The idea that ending the Bush cuts for the top brackets will hamper small businesses' ability to reinvest is a red herring. I'm an average small business owner in Nebraska. I have 30 employees. My business does \$2 million plus in annual sales. My personal income as the owner is less than \$85,000 a year. The sales dollars I reinvest by hiring more employees or buying equipment don't pass through onto my tax return. As a fellow businessman once told me, 'Give me more customers and I'll be forced to buy equipment and hire people to meet demand. Give me a tax break without more customers and I'll just go to Aruba.'"*

— Rick Poore, Owner, Design Wear Inc., Lincoln, NE.

*"All across our country, families are fighting for their jobs, their businesses, their homes, their children's education and their retirements. Congress and President Obama should be focusing like a laser on energizing Main Street business and job creation – not repeating policies that led to the greatest economic crisis since the Great Depression. No amount of smoke and mirrors can change the clear truth of history: the American economy created just 1.1 million jobs net under the policies of the Bush Administration, while creating 22.7 million jobs under the Clinton Administration. The Bush administration inherited a large budget surplus and left behind a giant budget deficit, economic meltdown and crumbling infrastructure. The high-end Bush-era tax cuts are contributing to our financial ruin rather than our economic success. They should expire as scheduled on December 31."*

—Margot Dorfman, CEO, U.S. Women's Chamber of Commerce.

*"The subjects of the state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state."*

—Adam Smith, The Wealth of Nations.

It makes good business sense to let temporary tax rates for the highest income brackets expire and revert to 1990s levels on January 1, 2011 as scheduled. Families should keep tax cuts on their income below \$250,000, but well-off families should not get *extra* tax cuts on their income above \$250,000.

Congress should not let Wall Street and big business CEOs hide behind small business to justify a budget-busting \$700 billion tax giveaway over the next decade that would be even more harmful for Main Street than it was the last decade. Instead, Congress should build on constructive action like the Small Business Jobs Act and the overdue infrastructure investment we need to create jobs and stay competitive in the global economy.

### Small business hiring is driven by customer demand, not tax rates

*"Expecting high-end tax cuts to trickle down as job creation is about as reasonable as pouring gasoline on your hood and expecting it to fuel your engine. I've run a small business for more than 30 years. When people tell you that small business owners will use the money they save from lower tax rates to hire someone, they've got it backwards. Either they've never run a small business or they're trying to mislead you. My tax rate doesn't effect hiring. If I think I can do more business, my company will hire more workers. The costs of finding, hiring and paying new employees are business expenses. They're deducted up front from our taxable income."*

—Lew Prince, Managing Partner, Vintage Vinyl, St. Louis, MO.

Money that a small business owner pays in employee wages or other business expenses is not included in the owner's taxable income. Small businesses will not hire workers or make new investments unless they expect enough demand for their products and services to justify the increased capacity. Owners base decisions to reinvest business revenue back into the business on expected demand for their products and services, not on income tax rates.

*"As a Certified Public Accountant and business owner, I know the impact of taxes up close and personal. The claim that ending Bush's tax cuts on income over a quarter of a million dollars will hurt the economy, reduce employment and burden small businesses is patently false."*

— Brian Setzler, President, TriLibrium, an accounting and business advisory firm, Portland, OR.

## **Job growth was much better before the tax cuts**

Experience shows that lower tax rates for high incomes don't generate better job creation. As *The Wall Street Journal* reported, President Bush "shows the worst track record for job creation since the government began keeping records" in 1939.

The Bush administration created just 1.1 million jobs net, while the Clinton administration created 22.7 million (fact checked by Politifact using the latest data). In the six years after Clinton's 1993 tax increase, employment grew 16.2 percent compared to just 4.8 percent in the six years between Bush's 2001 tax cut and the Great Recession.

The 2001-2007 economic expansion was the weakest since World War II when it came to growth in GDP, consumption, non-residential investment, wages and salary, and net worth, as well as employment growth. And the meltdown following was the worst since the Great Depression.

## **Top tax rates would be same as during longest economic expansion in U.S. history**

The top rates would revert back to the levels they were between 1993 and 2000 during the boom. Because of the middle class tax cuts, everybody, from bus drivers and small business owners to billionaires, will still pay less income tax than in 2000, when there was a budget surplus. And the top tax rate will be much lower than it was from 1932 to 1986.

## **Everybody Still Gets Tax Cuts: Well-off families keep tax cuts on their first \$250,000**

If the top rate tax cuts expire on schedule for couples with taxable income over \$250,000 and individuals over \$200,000, they will still retain tax cuts on the portion of their incomes below those thresholds if Congress extends the "middle-class tax cuts" applying to the lower brackets. **High-income households will actually get thousands of dollars more than middle-income households from the "middle-class tax cuts."** The congressional Joint Committee on Taxation estimates that extending just the middle-class tax cuts would provide more than \$6,300 in tax cuts to households with incomes above \$200,000, on average, compared to \$916 for those between \$40,000 and \$50,000 (median income fell to \$49,777 at last measure).

Remember that taxpayers don't pay the same rate on their first dollars of taxable income as they do on their last. If rates reset to 36 percent and 39.6 percent for the top two brackets, upper-income taxpayers will stay pay a 10 percent rate for the portion of taxable income falling within the first bracket, 15 percent in the second, 25 percent in the third and 28 percent in the fourth bracket.

## **Few actual small business owners are in top tax brackets**

Less than 3 percent of tax filers with any business income make over \$200,000 (individuals) or \$250,000 (couples) a year, and many of those are not small business owners, much less small

business owner operators with employees. They include K Street lobbyists, Wall Street investment partners, big business CEOs paid to sit on the boards of other big companies, wealthy people renting out their vacation homes when they aren't using them and even President Obama, who earns book royalties.

*“While proponents acknowledge that less than 3 percent of the taxpayers who would receive the tax cuts actually have some business income, they insist they are the very successful small business owners who will stop hiring and purchasing if they don't get their tax cut. Wrong, wrong, wrong. Very few of them are what most would consider small business owners. They include partners in large corporate law firms, hedge fund managers, K Street lobbyists, high-powered consultants, Wall Street bond traders and the country's wealthiest millionaires—all of whom claim some business income and thus are counted in IRS eyes as small businesses. Almost all real small business owners are middle-class Americans with middle-class incomes. These middle-income, Main Street small businesses are the ones we really need to help create the new jobs to lift us out of this down economy.”*

—Frank Knapp, President and CEO, South Carolina Small Business Chamber of Commerce.

## **Ending Top-Rate Tax Cuts, Extending Unemployment Insurance Better for Economy**

Reducing income taxes came in last out of 11 policy options evaluated by the Congressional Budget Office for increasing economic growth and employment. As the CBO summarized, “Policies that could be implemented relatively quickly or targeted toward people whose consumption tends to be restricted by their income, such as reducing payroll taxes for firms that increase payroll or increasing aid to the unemployed, would have the largest effects on output and employment per dollar of budgetary cost in 2010 and 2011. By contrast, policies that would temporarily increase the after-tax income of people with relatively high income ... would have smaller effects because such tax cuts would probably not affect the recipients' spending significantly.” The CBO said, “Additional options would increase federal spending by investing in infrastructure or providing aid to state governments, which would strengthen demand for goods and services and reduce further losses of state and local government jobs.”

The policy the CBO found with the biggest bang for the buck is extending unemployment insurance. That would have *six to eight times* as much impact on employment as income tax cuts (not just high-end income tax cuts, which would be even less cost-effective). Unemployment insurance payments are essential to the unemployed and to the local businesses where they buy the necessities once covered by paychecks. Congress has never cut back on unemployment benefits with unemployment was so high. Cutting off 2 million Americans whose benefits run out in December would be a staggering blow to families, businesses and communities.

## **If Wall Street tax cuts trickled down, Main Street wouldn't be in economic drought**

Huge tax cuts for the best-off Americans have not trickled down in small business investment, consumer purchasing power or job creation. More budget-busting tax cuts for the top won't help Main Street and won't rebuild our failing infrastructure. They *will* widen income inequality, which is already the highest on record, and weaken our economy.

According to the latest IRS data, the 400 richest taxpayers increased their average income by 399 percent, adjusted for inflation, between 1992 and 2007, and lowered their effective income tax rate by 37 percent - from 26.4 percent to just 16.6 percent.

“In the economic expansion of 2002-2007, the top 1 percent captured two-thirds of income growth,” says Emmanuel Saez, who won the American Economic Association's prestigious 2009

Clark medal. The Center on Budget and Policy Priorities reports, “The average pre-tax income for the bottom 90 percent of households is almost \$900 *below* what it was in 1979, while the average pre-tax income for the top 1 percent is over \$700,000 *above* its 1979 level.”

There have been two times since 1913 when the share of national income held by the top 1 percent of Americans expanded so much that it reached more than 23 percent. The first was 1928 right before the Great Depression. The second was 2007, ushering in the Great Recession.

The top 1 percent may have more than a fifth of the income, but they don’t account for that big a share of demand. Indeed, Citizens for Tax Justice estimates that “the 2.1 percent of taxpayers who are rich enough to lose part of their Bush tax cuts under the Obama plan are responsible for only about 8 percent of total national consumer spending.” The extraordinary concentration of income at the top has undermined broad-based consumer demand and job creation.

The Bush tax cuts exacerbated the dramatic rise in income inequality and in national debt. Personal income taxes as a share of GDP dropped from 12.2 percent in 2000 to 9.6 percent in 2008. If the Bush tax cuts are extended at the high end as well as below, then the top 1 percent will get 26.8 percent of the total tax cuts – an average tax savings for the top 1 percent of more than \$62,000 paid for by borrowing from other countries.

## **Main Street Decline Means America’s Decline**

*“Years of delayed maintenance and lack of modernization have left Americans with an outdated and failing infrastructure that cannot meet our needs. Infrastructure has a direct impact on our personal and economic health, and the infrastructure crisis is endangering our nation’s future prosperity.”*

—The 2009 Report Card for America’s Infrastructure.

In the last decade, we have been cutting taxes on the wealthiest Americans and borrowing money from China and other countries to pay for them. China has invested heavily in modern infrastructure, research and renewable energy, and already leads in producing wind turbines and solar panels. The United States has fallen behind China, Germany and the European Union overall in exports. With a population nearly four times larger than Germany, significantly higher inequality and lower taxes, the U.S. exports less than Germany, whose wages are among the world’s highest.

According to the CIA World FactBook, the United States is No. 1 in national debt, No. 11 in GDP per capita, No. 46 in infant mortality rate and No. 49 in life expectancy. The U.S. ranks worse than 92 other countries when it comes to income inequality, slotted between Uruguay and Cameroon.

It’s time to end, not extend, policies like the high-end tax cuts that created the worst economic crisis since the Great Depression, and build an economy that grows our small businesses and middle class rather than destroys them.

*“The retired business leaders I serve with on community boards are thankful for the opportunities we’ve had to do business and grow wealth in this remarkable nation and free market economic system. Far-sighted leaders supported policies that propelled millions of Americans into the stable middle class. Today, we’re coasting along on previous generations’ investments in water treatment facilities, bridges and other essential infrastructure — and we’re leaving too many talented young people behind. Our failure to make investments today will undercut prosperity for the next generation.”*

—Peter Heegaard, retired from banking, is founder of Urban Adventure in Minneapolis, MN.

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