BUSINESS for SHARED PROSPERITY

By Scott Klinger and Holly Sklar
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The Business Case for Restoring Tax Rates for High-Income Taxpayers to Pre-Bush Levels

> *"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. If we give more tax cuts to the wealthy, we'll see many more cutbacks in the public services and infrastructure that really strengthen our economy. We are still using roads, schools, parks and hospitals built as jobs projects during the Great Depression. Wouldn't it be great if our grandchildren were using broadband, renewable energy and 21st Century infrastructure created today?"*
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> —Lew Prince, Owner, Vintage Vinyl, St. Louis, MO.

> *"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."*
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> —Adam Smith, The Wealth of Nations.

When the Bush tax cuts were first passed in 2001, the federal government had a budget surplus and proponents claimed tax cuts would pay for themselves and boost investment and job creation. Instead, as *The Wall Street Journal* reported, President Bush had "the worst track record for job creation since the government began keeping records" in 1939. The 2001-2007 economic expansion was the weakest since World War II when it came to growth in GDP, non-residential investment, compensation and net worth, as well as employment growth. And the meltdown following was the worst since the Great Depression. About $1 trillion in tax cuts have gone to households in the top one percent. Income tax revenues as a share of GDP have fallen to the lowest level since 1951.

The vote to extend the Bush tax breaks for taxpayers in the highest income tax brackets beyond the scheduled Dec. 31, 2010 expiration date, was a vote favoring Wall Street and big business CEOs, not small business and Main Street. The wealthiest one percent of taxpayers will get an average tax cut in 2011 of almost $77,000 each. At the same time, Congress and the President are making large and growing budget cuts, with severe impact on small business and job creation – slashing the Small Business Administration, community economic development programs, housing, job training and much more. America's failing infrastructure is starved of funds and falling further behind global economic competitors.

The high-end tax cuts are hurting our economy. It's well past time to end them – not extend them or, even worse, slash top rates further as called for in the Republican budget plan passed by the House. Families should keep tax cuts on their income below $250,000, as advocated in 2010, but well-off families should not get *extra* tax cuts on the portion of their income above $250,000.

> *"If anyone tells you it will hurt small business to extend the middle-class tax cuts while ending tax cuts at the top, tell them to talk to me. The only thing trickling down on small business from*

> *the high-end tax cuts is the crocodile tears of those who use small business as camouflage for more self-serving tax cuts to avoid paying their fair share. The high-end tax cuts are not good for our more than 500,000 members or small businesses generally. They don't help create jobs. They are contributing to America's financial ruin – not our economic success…. Wealthy lobbyists, politicians, hedge fund managers and big business CEOs should stop hiding behind small business to push policies that line their pockets while hurting small businesses and hurting America… With more and more money concentrated with fewer and fewer politically influential high rollers, less and less money is flowing into and through the hands of the mainstream American consumer. We don't need more tax cuts at the top. We need more broad-based consumer income and spending at the bottom and the middle… We need the $700 billion in revenue gained from restoring the top bracket tax rates to Clinton-era levels. We need to invest it in real job creation and small business growth, and rebuilding the infrastructure that underpins our economy.*
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> —Margot Dorfman, CEO, U.S. Women's Chamber of Commerce, in *The Hill*.

Job growth was much better before tax cuts

The record is clear: lower tax rates for high incomes don't generate better job creation. In the six years after President Clinton's 1993 tax increase, employment grew 16.2 percent compared to just 4.8 percent in the six years between President Bush's 2001 tax cut and the Great Recession.

The number of jobs created during Clinton's two terms was more than 20 times higher than during Bush's two terms. The Bush administration created just 1.1 million jobs net, while the Clinton administration created 22.7 million.

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

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

> *"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.'"*
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> — Rick Poore, Owner, Design Wear Inc., Lincoln, NE.

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.

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, and wealthy people renting out their vacation homes when they aren't using them.

> *"While proponents acknowledge that less than 3 percent of the taxpayers who receive the high-end 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."*
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> —Frank Knapp, President and CEO, South Carolina Small Business Chamber of Commerce.

Everybody still gets tax cuts: Well-off families keep tax cuts on their first $250,000

If the top tax brackets are repealed for couples with taxable income over $250,000 and individuals over $200,000, they would still retain the "middle-class tax cuts" on the portion of their incomes below those thresholds and pay less than they did in 2000. 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. The top two tax brackets would reset to the rates that prevailed for most of the longest economic expansion in our nation's history. The top tax rate would be much lower than it was from 1932 to 1986.

Much better ways to stimulate economy than top-rate tax cuts

Tax cuts for high-income taxpayers provide negative bang for the buck – just 40 cents of increased economic activity for every federal dollar spent. Using Congressional Budget Office data, the Economic Policy Institute provides this comparison of increased economic activity per dollar spent:

•	Direct spending and infrastructure	$1.75
•	Unemployment insurance and food stamps	$1.45
•	Aid to states	$1.25
•	Tax cuts to low- and middle-income taxpayers	$1.05
•	Tax cuts for high-income taxpayers	$0.40
•	Corporate tax breaks	$0.20

It's madness to cut spending on programs that work to pay for tax cuts that don't.

> *"You've heard people argue that we have to extend all the tax cuts because tax cuts at the top go to small businesses and small businesses create jobs. That we need more jobs is indisputable. But it's a myth that tax cuts on the biggest incomes help small businesses create jobs."*
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> —Lya Sorano, founder of Atlanta Women in Business.

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, broad-based consumer purchasing power or job creation. More budget-busting tax cuts for the top won't help Main Street, won't hire, house or educate more people, and won't rebuild our failing infrastructure. They *will* widen income inequality, which is already the highest on record, and further undermine our economy.

According to the latest IRS data, the average income of the 400 richest taxpayers more than tripled between 1992 and 2008 – from $71.8 million to $270.5 million, adjusted for inflation. In the same period, their effective income tax rate fell 31 percent – from 26.4 percent to just 18.1 percent.

"Two-thirds of the nation's total income gains in the economic expansion from 2002 to 2007 flowed to the top 1 percent," the Center on Budget and Policy Priorities reports. "In fact, 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 richest 1 percent may have more than a fifth of the income (and more than a third of the nation's wealth), but they don't account for a proportionate share of demand. Indeed, Citizens for Tax Justice has estimated that the top 1 percent would be responsible for 6 percent of total consumer spending in 2011.

The extraordinary concentration of income at the top, exacerbated by the Bush tax cuts, has undermined broad-based consumer demand, job creation and economic vitality.

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."*
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> —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, as well as underfunding vital programs. China has invested heavily in modern infrastructure, research and renewable energy; it already leads in producing wind turbines and solar panels. The United States has fallen behind China and Germany in exports. Despite having a population nearly four times larger, the United States exports less than Germany, an advanced manufacturing powerhouse whose wages are significantly higher.

According to the CIA World FactBook, the United States is No. 1 in debt owed to nonresidents, No. 11 in GDP per capita, No. 43 in public expenditures on education, No. 46 in infant mortality rate and No. 50 in life expectancy. The U.S. ranks worse than 97 other countries when it comes to income inequality, slotted between Jamaica and Cameroon.

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

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

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