



July 10, 2012

Democrats' Tax Policies: Bad for Jobs

On May 16, President Obama pushed for a tax [proposal](#) that would provide a credit equal to 10 percent of the increase in an employer's payroll, not necessarily due to additional employees. This is identical to S. 2237, introduced by Majority Leader Reid in March.

On July 9, President Obama called for tax increases on small businesses. Senate Democrats have already embraced this tax policy for "party unity" despite voting against it in 2010.

None of these policies reforms or simplifies the tax code. They make it more unpredictable.

President Obama's Call for Higher Taxes Will Hurt Jobs

On Monday, President Obama called on Congress to allow a tax hike on families and businesses making more than \$250,000. New and higher taxes will not create jobs. According to the [Congressional Budget Office](#), "higher marginal tax rates do reduce economic activity." President Obama's tax hike plan will hurt the ability of small businesses to innovate, invest, and hire.

- **The Economy is Weaker than When All Tax Rates Were Extended.** At the time of the 2010 tax rate extension, GDP growth was [3.1](#) percent and President Obama [said](#) that raising taxes "would have been a blow to our economy." GDP growth over the last four quarters has been [2.0](#) percent.
- **One Out of Four Employees Works at Businesses Hit.** Businesses employing [25 percent](#) of the American workforce would be hit with higher taxes.
- **Majority of Small Business Income Affected.** An estimated [53 percent](#) of all business income reported on individual tax returns will be affected by the President's tax increase.
- **One Million Small Businesses Caught.** Approximately [940,000](#) small businesses would be hit by President Obama's tax hike.
- **America's Competitiveness Hurt.** Raising the dividend and capital gains rates will result in a [68.6 percent integrated dividend tax rate](#) (the highest among industrialized countries) and a 56.7 percent integrated capital gains tax rate, second highest among these nations (behind Italy). Such a high rate will drive investment and jobs overseas.

Temporary Tax Policy Does Not Work

- Senator Reid’s Small Business Tax Bill, S. 2237, would be just another temporary tax provision, like so much of the U.S. tax code that expires every year or two.
- The [HIRE Act](#), a temporary stimulus tax credit that passed in March 2010, exempted employers from Social Security taxes for new employees and allowed an increased general business tax credit for the retention of these new employees. Yet unemployment in 2010 remained above 9.4 percent every month. Obama Administration economist Alan Krueger said in 2010 that he would be “[cautious](#)” about attributing new hiring to the HIRE Act, and in 2009 a survey of small business owners found that 65 percent would not be affected by a \$3,000 tax credit for new hiring.
- The bill would add to the complexity of our tax code when economists say we should be simplifying it. Meanwhile the President’s nominee to lead tax policy at the Treasury Department says that “there is [no plan](#) that is being developed” to reform our tax code.
- Small businesses have not responded to Democrats' past efforts to micro-manage the economy. A [recent survey](#) shows that only a net three percent of small businesses plan to hire more workers. This shows that programs like the HIRE Act have not worked. What small businesses need is certainty – an extension of all current tax rates would provide that. Without an extension of current rates, taxes will increase on the same small businesses that Democrats say they are targeting with this bill.

The U.S. needs to avoid a fiscal cliff at the end of the year and to enact fundamental tax reform. The best the President and Senate Democrats can do is piecemeal provisions that appeal to their political needs of the moment like the “Buffett Tax.” Senate Democrats have avoided any debate or votes on the 109 expired or expiring tax provisions this year.

Unfocused and Unconstitutional

- Under S. 2237, any employer of any size would be eligible for this stimulus tax credit. The only employers not eligible are the federal government and state or local governments. Public colleges and universities are eligible.
 - Warren Buffett would be eligible for this stimulus tax credit.
- Employers would be eligible if they just increase wages and do not increase jobs. This may be the option some employers choose due to the high cost of training new workers.
- The bill simultaneously attempts to micro-manage how businesses spend their money – on payroll rather than any other form of investment – while not focusing on helping small businesses create jobs.
- This is a political messaging effort. Senator Reid's bill is unconstitutional since it is a Senate bill that affects revenue. If the President wants to pass a law, he should urge Senator Reid to follow regular order and let the Finance Committee consider H.R. 9, a small business tax cut proposal that was referred to the Finance Committee after it passed the House.