



Insight

# Expiring Tax Cuts: Small Businesses are Worried

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Fed Chairman Ben Bernanke recently gave voice to a worry that is on the mind of many Americans – our economic recovery may not be as robust as needed to put Americans back to work. Sure, the stock market is going up – but that’s big companies, whose fates are tied more to global markets and who employ people around the world. US jobs come predominantly from small business, and they are still suffering in this downturn.

Small businesses employ half of all Americans. If our economic expansion is to continue or even gain momentum, we need small businesses to be the engine of job growth. There are many worries out there, hanging over these small business employers. The new health care reform bill imposes new costs and new taxes. And we read reports every day that in the wake of last year’s financial crisis, lenders are not making credit available to small businesses the way they used to. Without that lending, small businesses are struggling to create jobs – and that is a threat to our economic recovery.

But there’s another looming burden for small business that hasn’t gotten the same attention as the health care bill and the credit crunch – higher income tax rates come into effect at the end of this year, further stifling their opportunities for growth.

The coming tax hikes are a critical reason to worry that small businesses – the engine of job creation – won’t be able to return to the vibrant, flourishing source of jobs and wage increases that our economic recovery depends on.

First, let’s dispense with the notion that raising the top tax rates just hits “the rich”. Small businesses throughout our economy are taxed under the individual income tax code. And those businesses are about to have the hammer dropped on them.

The top two income tax rates are set to rise when the 2001 tax cuts expire this year. Rather than extend them, President Obama would have the top rates go from 33 to 36 percent for those with incomes of about \$250,000, and from 35 to 39.6 percent for filers with income above \$373,000. In addition, deductions would be phased out for those in the top two brackets. Together, according to the OMB, these proposals would raise \$573 billion over ten years.

Who will pay? According to the Tax Foundation, 40 percent of the new revenue from the increase in the top two tax rates will come from small business owners – that’s \$230 billion in higher small business taxes – funds not available to hire and create jobs.

According to a recent survey – the Small Business Opinion Poll commissioned by EMPLOYERS(R) – 41% of small business decision-makers at the end of 2009 said it will be more than 10 months before they plan to begin hiring again.

No doubt, many of them are looking at their coming tax bill, and worrying that they better not hire workers until they put aside enough to pay Uncle Sam first.

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