“The Problem with Taxing More, Spending More”

Although our nation’s tax code is already highly progressive, the Administration and Congressional Democrats are on track to implement the largest tax hike in American history in order to pay for their massive increase in government spending. Rather than reign in wasteful Washington spending and put our nation on the road to recovery, these tax increases will damage economic growth and stifle job creation.

Earlier this year, the House passed the Democrats’ Fiscal Year 2010 budget which includes taxes directly aimed at small businesses. The budget raises the top two income tax rates from their current 33 and 35 percent levels to 36 and 39.6 percent, respectively. This will essentially increase taxes on all taxpayers earning more than $250,000 by eliminating the 2001 and 2003 tax cuts. Because most small businesses do not pay corporate income taxes, and instead pay taxes on their individual returns, small businesses will be particularly hard hit by this $637 billion tax increase.

In addition, to help pay for the government’s massive takeover of health care, the current House bill attempts to plug part of the $1.5 billion fiscal hole it creates with a new $544 million surtax on high-earning individuals and small businesses. As the top income tax rate is already scheduled to increase to 39.6 percent, the surtax would be layered on top of that: an additional 1 percent on incomes between $350,000 and $500,000; 1.5 percent between $500,000 and $1 million; and 5.4 percent over $1 million.

In the end, the combination of the income tax, surtax, Medicare payroll tax, and elimination of the 2001 and 2003 tax cuts, the average Federal-State marginal tax rate would be over 52 percent in the United States, which is higher than 25 of the most economically developed countries in the world. In fact, in California alone the marginal income tax rate would be 56.92 percent—higher than both Sweden and Belgium! According to a Joint Committee on Taxation data projection for 2011, nearly 50 percent of small business income would be subject to the surtax.

On top of these egregious tax increases, the Administration plans to raise taxes on American companies with foreign operations by limiting allowable deductions and restricting eligibility for foreign-tax credits. Under current law, both the U.S. government and the government where income is earned each impose corporate income taxes. To reduce double taxation, the U.S. allows a tax credit equal to the amount of foreign tax paid.

An example of how this would hurt U.S. businesses is in the case of General Motors (GM), a U.S.-based company with overseas operations. GM’s overseas operations have been profitable for several years, but under the Administration’s new plan, when they bring this income into the U.S. to help keep their company afloat they would be double-taxed. At the same time, ironically, GM is receiving taxpayer dollars from the Troubled Asset Relief Program. It does not make sense to be subsidizing U.S. companies while at the same time double-taxing their income.

While independent research has found that small businesses create seven out of ten jobs in our nation, the Administration and Congressional Democrats foolishly continue to raise taxes on these engines of job creation. Rather than decrease spending elsewhere in the government, they are extorting American taxpayers to pay for more government programs and intrusion, which are more often than not full of waste and fraud. In these times of economic hardship, taxpayers and employers should have greater access to their own capital so that jobs can be preserved, protected, and created.

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