

Commentary: The coming tsunami of business tax increases

By Caroline L. Harris
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Jim Wordsworth, who owns JR's Stockyards Inn in Tysons Corner and several local catering businesses, is in the top tax bracket and therefore will be subject to a hefty increase when the Bush tax cuts expire at the end of the year. But he says he is far from wealthy, and his concerns echo those of business owners nationwide.

Though his business earnings put him in the top-income category of \$250,000 and above, he says he has been paying himself only \$82,500 a year in salary since the 1980s. He plows the balance into his businesses to keep them afloat -- as some have experienced losses during the economic downturn.

Next year, Wordsworth says, he expects that he'll have to send thousands of dollars more to the government -- money that could go toward giving bonuses to workers who took on more work for the same pay, expanding the staff or opening a new location.

Wordsworth's fears are driven by the fact that if Congress does not act, on Jan. 1, Americans will face the biggest tax hike in history. Marginal income tax rates will increase for every taxpayer. The capital gains tax rate will climb 33 percent. Dividend rates for stockholders will jump by as much as 164 percent. The child tax credit will be cut in half and the marriage penalty will return.

Small businesses, our job creators and the backbone of our economy, will be among the hardest hit by these tax increases. The top marginal income tax rate will grow to 39.6 percent from 35 percent. Compound that with the loss of certain itemized deductions and personal exemptions, and these small businesses face rates as high as 41.6 percent. And this increase hits our successful small businesses particularly hard -- approximately half of the business income reported on tax returns in 2011 will be subject to the top two marginal rates.

"A tax increase of this magnitude would create a big disincentive when it comes to growing my business or hiring more workers," said Wordsworth, 67, who has been in business 36 years. "These impediments have got to stop."

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Already, the American dream is in danger of turning into the American nightmare. Our economy is meandering down the road to recovery but has yet to hit its stride. Nearly one in 10 Americans can't find work. And if you consider those who have given up looking or settled for part-time work, that number jumps to nearly one in five.

Things are bad -- and, if taxes increase, they could get much worse.

Congress needs to act now to prevent this tax increase. Extending existing tax rates would, in one bold stroke, boost investor, business and consumer confidence by taking the uncertainty of tax policy off the table. With more of their hard-earned money on hand -- and a better sense of what the future will bring -- businesses and individuals will be able to make the purchases and investments that drive economic growth and create jobs.

For companies that employ Americans and keep our economy moving, raising dividend rates could discourage investment. Further, it could incentivize companies to use excessive debt financing, causing greater economic instability. All taxpayers who receive dividends, regardless of income level, could be hurt by potential lower dividend payouts.

Congress can help restore the American dream by preventing the largest tax increase in U.S. history. By doing so, it will give businesses -- especially small businesses like Wordsworth's -- the confidence and

certainty they need to grow and hire workers.

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