

UNITED STATES SENATE COMMITTEE ON FINANCE

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Baucus, Grassley: New Analysis Shows Tax Cuts Help Small Businesses

WASHINGTON -- Sen. Max Baucus, chairman of the Senate Finance Committee, and Sen. Chuck Grassley, ranking member, today said a new U.S. Treasury Department analysis shows that farms, small businesses and entrepreneurs will receive most of the tax relief from cutting the top marginal tax rates.

"I'm pleased this analysis shows the tax cut we passed will provide relief for farmers and ranchers and our agriculture community, as well as small businesses and entrepreneurs throughout our country," Baucus said. "My state is an agriculture and small business state, and it's heartening to know that this tax cut will put money back in the economy and help create more jobs."

Grassley said, "One of the goals of our bipartisan tax cut was reducing the tax burden for small businesses. "That's important because small businesses create most of the jobs in this country. The new analysis shows that we succeeded in our desire to re-kindle the fire fueling the small business engine."

At the senators' request, the Treasury Department's Office of Tax Analysis calculated that when the new tax relief law is fully phased in, entrepreneurs and small businesses -- owners of sole proprietorships, partnerships, S corporations, and farms -- will receive 80 percent of the tax relief associated with reducing the top income tax rates of 36 percent to 33 percent and 39.6 percent to 35 percent. Such business owners make up 62 percent (about 500,000) of the 800,000 tax returns that will benefit from the new 33 percent and 35 percent rates, according to the analysis.

Baucus and Grassley said most of the job growth over the past decade has come from small businesses, noting that 80 percent of the 11.1 million new jobs created between 1994 and 1998 were from businesses with fewer than 20 employees, and 80 percent of American businesses have fewer than 20 employees. Experts agree that lower taxes increase a business' cash flow, which helps with liquidity constraints during an economic slowdown and could increase the demand for investment and labor, the senators said.

An October 2000 report by the National Bureau of Economic Research, a well-regarded non-partisan organization, entitled "Personal Income Taxes and the Growth of Small Firms," says plainly that when a sole proprietor's marginal tax rate goes up, the rate of growth of his or her business enterprise goes down, the senators said.

The bipartisan tax cut bill responded to the fact that individual income tax collections were near an all-time high, even higher than some levels imposed during World War II. Baucus and Grassley said individual rate cuts are important relief for small businesses because most small business owners and farmers operate their businesses as sole proprietorships, partnerships, Limited Liability Corporations or S corporations. The income of these types of entities is reported directly on the individual tax returns of the owners. A rate reduction for individuals reduces rates for farms and small businesses.

Baucus and Grassley were instrumental in passing the bipartisan tax cut legislation.

