

SMALL BUSINESS TAX CUT ACT OF 2012

Fact Checker

Claim: “Nearly half of the tax break would go to millionaires.”

Fact: This charge is based on a flawed Tax Policy Center (TPC) study. While acknowledging that the proposed tax relief is available to small business employers irrespective of whether they are organized as a pass-through (and thus pay their taxes through the individual tax code) or a C Corporation (and thus pay their taxes through the corporate tax code), the TPC study elected to assign all of the benefits of the tax relief under the bill for C Corporations to the individuals who own stock in those companies, even though the tax relief is received by the small business corporation. It is important to remember that the Small Business Tax Cut is limited to certain employers and capped at 50% of W-2 wages paid, so it is specifically designed to benefit these small business employers. Assigning the benefit to C Corporation stockholders does not only result in a distorted analysis, but also one that ignores the specifics of the legislation. When the non-partisan Joint Committee on Taxation (JCT) produced its distributional analysis it did not assign the benefit received by C Corporations to shareholders. The JCT found that less than 20% of the benefit would go to taxpayers with adjusted gross income in excess of \$1 million.

Claim: The proposal would provide tax relief to “multibillion-dollar hedge funds, law firms and other enterprises that create significant profits with few employees.”

Fact: Tax relief under the Small Business Tax Cut is specifically capped at 50% of W-2 wages paid by the small businesses. Therefore, the ability of any firm to benefit from this tax relief is directly tied to the amount of wages they pay their employees. Further, while it is accurate that law firms and professional small businesses could be eligible for relief under this proposal, these very same entities would also be eligible for tax relief under the President’s proposal to provide tax relief for employers that increase their payroll. Senator Schumer is reportedly introducing a proposal similar to the President’s as the Democrat alternative to the Small Business Tax Cut Act.

Claim: “The proposal would benefit sports teams, celebrities, smut peddlers, etc.”

Fact: The Small Business Tax Cut is available to all small business employers with fewer than 500 employees. The proposal does not attempt to pick favored and non-favored industries. Interestingly, the President’s proposal to provide tax relief to employers based on an increase in wages paid also didn’t attempt to pick favored and non-favored industries and thus would also be available to “sports teams, celebrities, and smut peddlers, etc.” Senator Schumer is reportedly introducing a proposal similar to the President’s as the Democrat alternative to the Small Business Tax Cut Act.

Claim: Under this proposal, a business wouldn't have to hire additional workers or increase payroll to receive the tax benefit.

Fact: Rather than micromanaging small business from Washington, we recognize that small business owners know their needs better than politicians in Washington. Some small businesses will hire workers, others will increase the wages they pay their current employees, others might use the tax relief to help keep a current employee on the job, and still others will use it to buy new equipment (which in turn will help another business and their employees). Linking tax relief to following certain rules from Washington just makes our small businesses less efficient and makes an incredibly complicated tax system even more cumbersome.

Claim: The Small Business Tax Cut isn't offset.

Fact: The Small Business Tax Cut is consistent with the House Budget Resolution, which reduces spending by \$5 trillion relative to the President's budget. Furthermore, the deficit is a result of overspending by Washington and those concerned about the deficit will have an opportunity to vote in the next month on a package of mandatory savings that will achieve nearly \$200 billion in deficit reduction.