



LEGISLATIVE ALERT:

INCOME TAX “SURTAXES” ARE MARGINAL TAX RATE INCREASES AND TAXPAYER PROTECTION PLEDGE VIOLATIONS

July 13, 2009

On Friday, House Ways and Means Committee Chairman Charlie Rangel (D-NY) announced a new tax increase to pay for government-controlled health care. Under the plan, taxpayers making as little as \$280,000 per year will see a surtax of between 1% and 3% of adjusted gross income.

This “surtax” is merely a thinly-veiled way to raise the top marginal tax rate. A 3% surtax on married couples making \$1 million or more would raise the top marginal tax rate in 2011 to 42.6%, up from 35% today.

Raising income taxes at all, and marginal tax rates in particular, is a clear and unambiguous violation of the Taxpayer Protection Pledge. This Pledge has been made by 172 Congressmen and 34 Senators to their constituents, and the American people. In it, they promised not to raise income taxes or raise marginal income tax rates.

The news is worse for small business owners. Small business profits face taxation on their owners' 1040 forms. Two-thirds of small business profits pay taxes in households making at least \$250,000 per year. Thus, this marginal tax rate increase is a tax hike on \$2 out of every \$3 small business dollars.

This marginal tax hike will affect small employers and their employees. One-third of Americans work in firms with 2 to 100 employees. These small businesses, which must have profits to employ workers, will face these marginal tax rate hikes. The cost will be born out in lower wages and less jobs.

Why raise taxes on job-creating small businesses in the middle of a deep recession with 10% unemployment? It makes no sense to do this economically. When Medicare payroll taxes and state income taxes are added to the mix, a small employer could easily face marginal tax rates approaching 50%, which would be the highest level since the stagflation 1970s.

722 12th Street N.W.

Fourth Floor

Washington, D.C.

20005

T:(202)785-0266

F:(202)785-0261

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