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US Small Businesses Group Urges Congress to Avoid Tax Increase

By Sari Heidenreich

WASHINGTON (MNI) - Congress should send immediate signals that it will maintain current tax rates so small businesses can continue to create jobs, a small business lobbyist said Tuesday.

"No small business owner should see their taxes increased, especially in the current economic environment," Bill Rys, a taxation lawyer at the National Federation of Independent Business, said at a Senate Finance Committee hearing.

With the 2001 tax rates set to expire, if Congress fails to act before the end of the year, small businesses will face a tax increase, Rys said.

Chris Edwards, director of tax policy studies at the Cato Institute, a centrist think tank, said Congress should ensure the top income tax rate remains in line with the average of the world's top 30 economies, currently 42%, to keep U.S. businesses competitive in the world market.

Edwards warned that higher taxes could deter entrepreneurs from starting businesses in the U.S. and called on Congress to follow in the footsteps of "most nations" and respond to the "competitive pressures of globalization."

Edwards calls on Congress to discard the proposed "narrow tax breaks" and adopt a "broad-based tax rate reduction."

According to a National Bureau of Economic Research study quoted by Rys, "a 5% increase in the individual tax rate, reduces by 10% the number of entrepreneurs making new capital investments and reduces the likelihood of hiring workers."

Assistant U.S. Trade Representative James Sanford told the committee small businesses are important to the economy for their contributions to job creation. He said 65% of net new private sector jobs in the past 15 years were created by small businesses.

"Small businesses that export tend to grow even faster, create more jobs, and pay higher wages than small businesses that do not," Sanford said in his prepared testimony.

However, Sandford said studies show only 1% of U.S. small- and medium-sized enterprises are currently exporting. The majority of such enterprises have limited in-house resources for understanding foreign markets and a lack of financing to support exports.

"For such firms, exporting is often viewed as a venture associated with greater risks and higher transaction costs than domestic sales," he said.

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