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# Senate Mulls Taxes and Small Business Job Creation

WASHINGTON, D.C. (FEBRUARY 25, 2010)  
BY WEBCPA STAFF

The Senate Finance Committee held a hearing to discuss trade and tax issues relating to small business job creation.



Max Baucus

"The Tax Code also includes policies that offer a good bang for the buck," said Senate Finance Committee Chairman Max Baucus, D-Mont., in his opening testimony. "Among these are provisions that put money in the hands of small businesses and increase their buying power. Examples are the expensing of certain investments or increased deductions for start-up expenditures. . . . Another tax provision to consider is the capital gain exclusion on the sale of small business stock held for five or more years. This tax cut gives people an incentive to invest in small corporations who are struggling to find the capital that they need to grow their businesses."

His Senate colleague objected to tax hikes on small business. "With unemployment at unacceptably high levels, Congress should not be raising taxes on small businesses, which create 70 percent of the net new jobs in America," said Senate Finance Committee ranking member Charles Grassley, R-Iowa. "The worst thing that could happen to small business' ability to create new jobs is to hit them with a job-killing tax hike."

Bill Rys, tax counsel at the National Federation of Independent Business, recommended that Congress extend the 2001 and 2003 tax rates. He pointed out that 75 percent of small businesses are pass-through entities and pay their business taxes at the individual level. However, he objected to proposals that provide tax credits to businesses that hire or retain workers.

"These are well-intentioned proposals, but will probably do little to spur significant new hiring," he said. "Providing a tax break for a business that adds a new employee during difficult economic times can help to defer some of the cost associated with adding a new worker and may move a business that is on the edge about hiring, but a tax credit is not going to be a big incentive to add a new employee."

However, he agreed with the approach proposed by Senators Charles Schumer, D-N.Y., and Orrin Hatch, R-Utah, which was included in the jobs bill passed by the Senate on Wednesday, focusing on the payroll tax.

Chris Edwards, director of tax policy studies at the Cato Institute, focused in his testimony on marginal income tax rates. He objected to Obama administration proposals to raise the top two individual income tax rates from 33 and 35 percent to 36 and 39.6 percent, respectively, in 2011. "That would likely harm investment, job creation, and growth," he said. "Higher marginal tax rates reduce incentives for productive activities, such as working and expanding businesses, and they increase incentives for unproductive activities, such as tax avoidance and evasion."

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