TAX RELIEF COALITION

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March 17, 2009

To All Members of the U.S. Senate and House of Representatives

The Tax Relief Coalition (TRC) is an organization of more than 1,000 trade associations, corporations and advocacy groups which was formed in 2001 to advocate for pro-growth tax policies. Our members represent 1.8 million businesses of all sizes, from every state and from every industry sector – businesses which invest in our economy and create jobs.

Like all Americans, TRC members are facing daunting economic challenges, the most severe challenges that many have seen in their lifetimes. But we believe that our free enterprise system is capable of pulling the country through this economic crisis. It is in the context of our strong belief in free markets that we write to express our profound disappointment in and unequivocal opposition to the budget recently released by President Obama.

The ongoing financial and housing crises are the number one challenge to turning America's economy around; in fact addressing these twin challenges means the difference between economic contraction and expansion, job losses and job gains. Although the economic challenges are daunting, a crisis atmosphere should motivate the Administration to tackle the economy, the financial system, the housing crisis and the restoration of credit markets.

Unfortunately, instead of focusing on the nation's number one priority – the economy – the Administration has announced the most sweeping expansion of government in decades. With the fiscal 2010 budget proposal, President Obama is attempting not merely to expand the role of the federal government, but to put it in a dominant position over the economy.

Rahm Emanuel, Chief of Staff to the President, commented that "you never want a serious crisis to go to waste." Overhauling the health care system, Medicare, energy policy, and a cap-and-trade system to reduce carbon emissions makes for a massive, block-buster agenda-buster agenda. But, none of those initiatives address the number one issue of Americans – the economy.

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Further, the scope and breadth of the President's budget impedes economic recovery by undermining consumer confidence, without which the economy will not recover. Despite the dramatic drop in the price of stocks, housing and consumer goods, people are still not buying, choosing instead to save and pay off debt. Consumer confidence will not be restored with people frightened of the future, facing spiraling government spending and damaging tax increases.

The President claims that his budget includes tax decreases for 95% of all Americans and tax increases only on the rich. That claim is completely without merit. In fact, the Administration budget proposes the transfer of hundreds of billions of dollars from the private sector to government programs – many of them inefficient and some which do not work at all –and every American will feel the bite of the tax increases to accomplish this wealth transfer.

The President proposes significant increases in the marginal tax rates for those earning $200,000 per individual or $250,000 per couple. In the real world, $2 out of every $3 in small business profits are taxed in the households affected by these tax rate increases. Since small businesses pay taxes on their owners' personal tax returns, a tax hike on these families is a tax hike on the lion's share of small business profits. We need these small business owners to take risk and invest in the economy. The Census Bureau reports that 43 million Americans—over a third of all workers—are employed in businesses with fewer than 100 people. This marginal tax rate hike takes aim squarely at America's employers and the small business sector.

The same can be said for the estimated $646 billion from a new cap-and-trade policy, which is in fact a tax on all energy consumption of all Americans. The only Americans earning under $250,000 per year who will be taxed under the President's budget are those who use electricity, drive a car or otherwise consume energy. In other words, every single American will pay this tax. And the value of the cap and trade tax will exceed the value of the President's tax cuts for 95% of all Americans.

Further, taxpayers who would see their tax rates dramatically increase would also see the value of their itemized deductions drop. Individuals and families above the targeted threshold would see the tax effect of their personal deductions, including breaks for charitable donations and mortgage interest, capped at 28 cents on the dollar rather than at their marginal tax rate. These actions would have an adverse effect on nonprofits struggling in the economic downturn.

That provision, which would raise $318 billion, would help pay for a $630 billion ''reserve fund for health reform'' dedicated to lowering the cost of health insurance and expanding coverage. And while the Obama budget concedes that the projected $630 billion is ''not sufficient to fully fund comprehensive reform,'' the President has promised to work with Congress to identify ''additional resources.'' More tax hikes.

This new cap on family deductions will be combined with a limitation on itemized deductions and a phase-out of personal and child exemptions, not to mention the ever-looming threat of the alternative minimum tax. And on top of all that, the budget includes an increase in the tax rate on capital gains and dividends.

The President also proposes direct taxes on business of $353 billion over ten years, despite the challenges that businesses are already facing just to keep their doors open, and despite the knowledge that raising taxes in a recession is bad policy. The budget proposes to repeal numerous benefits for oil and gas companies; codify the economic substance doctrine; eliminate the last-in, first-out accounting method (LIFO); and increase information reporting requirements for rental payments.

The Administration would also tax so-called 'carried interest'—capital gains paid to a manager of an investment partnership—as ordinary income, pretending that these are not in fact capital gains. State pension funds, charitable nest eggs, and universities are all heavily-reliant on these investment partnerships, and would face funding shortfalls if this tax hike pushed successful managers into other fields.

The Administration also left some major revenue raisers vague. Perhaps one of the biggest question marks is the more than $200 billion set aside to ''implement international tax enforcement, reform deferral and other" – unnamed – "tax reform policies.'' At a score of $210 billion, the proposal must include some fundamental changes that will impact the global competitiveness of U.S.-based companies.

Nowhere in the President's economic program is there any meaningful reduction in tax rates to jumpstart the economy, even though it is rate reductions which create real incentives for economic growth. Instead, the President proposes in his new budget to sharply increase tax rates on the productive elements of America's economy. These are the people and companies that invest in America's economy, including small businesses that represent the majority of job creation.

Finally, while the "tax the rich" class warfare arguments make good sound bites, most of those subject to the tax increases in the budget are the creators of wealth and jobs, and already pay a disproportionate percentage of federal income taxes. According to the most recent IRS data, the top 1% of individual taxpayers pay nearly 40% of individual federal income taxes, yet they represent only about 22% of total income in the country; the top 5% of individual taxpayers pay more than 60% of individual federal income taxes, yet they represent less than 37% of total income in the country; the top 10% of individual taxpayers pay more than 70% of individual federal income taxes, yet they represent only just over 47% of total income in the country; while the bottom 50% of individual taxpayers pay less than 3% of federal income taxes, yet they represent more than 12% of total income in the country. And 33% of all tax filers pay no income tax at all.

The U.S. income tax code is already highly progressive; and in the last decade, the code has gotten more progressive, not less. In 1997, the top 1% of income earners paid 33% of all income taxes. Today, that figure is 40%. Increasing taxes on those who invest in the economy and create jobs is economically counter-productive and unfairly punitive.

But the real tax threat in the President's budget is in his unprecedented increase in federal spending. The sheer magnitude of federal spending built into the budget proposal is breathtaking. Federal outlays will soar in fiscal 2009 to $4 trillion, or 27.7% of GDP, from 20% in 2007. This is higher as a share of the economy than any year since 1945, when the country was still mobilized for World War II. It is more spending by far than during the Vietnam War or during the recessions of 1974-75 or 1981-82.

The deficit is 12.3% of GDP, about one-eighth of the entire U.S. economy, for the federal deficit alone. That is the largest in U.S. history except for World War II. The Administration budget also states that the national debt will grow by $2.7 trillion this year alone, an increase of 27% in one year. The national debt this year will reach $12.7 trillion, almost as large as our entire economy of $14 trillion.

There is simply no way the spiraling spending can be sustained without additional, even more economically crippling, tax increases.

The President, and all American citizens and businesses, face enormous challenges today. Fixing our economy must be the first challenge we take on. The President instead has offered a budget proposing transformational changes to the country. While the merits of these ideas will be extensively debated, it is clear that such broad policy shifts can be neither launched nor sustained without a vibrant economy. Restoring economic growth must be the single top priority of the Administration and Congress, and unfortunately, this budget does not reflect that necessary focus.

Sincerely,

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