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Obama's Jobs Plan: Permanent Tax Hikes on Job Creators

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When President Obama unveiled his much-hyped American Jobs Act to a joint session of Congress last week, he promised that the increased spending and temporary tax cuts the plan entails would be fully "paid for." He did not specify in that speech the details of how he would offset the costs of his plan other than he would charge the "super committee" with this responsibility.

This week, he released his own proposals to pay for the plan. To no one's surprise, the plan would offset the costs of its jobs policies solely with tax hikes and not one penny of spending reductions.

The tax increases the President proposes are the same old hodgepodge of tax hikes he has proposed often since taking office, and they have been rejected by Democratic and Republican Congresses alike each time he's pushed for them. In the end, the tax hikes would be permanent while the jobs policies temporary; thus, the proposal is really a tax hike plan rather than a jobs plan.

Tax Hike on Job Creators. Almost all of the $447 billion in increased revenue called for by President Obama would come from raising taxes on job creators,[1] the same job creators whom President Obama wants to hire more workers to reduce the unemployment rate.

The plan would raise taxes on job creators by capping the deductions that families and businesses earning more than $250,000 a year could claim. It would reduce the deductions of these families and businesses to the amount they could claim had they only earned enough to qualify for the 28 percent tax bracket instead of the higher tax brackets (33 percent and 35 percent) they face now.

For example, under the current tax code, $100,000 of deductions for a family that pays the 35 percent rate reduces its tax bill by $35,000. Under the plan's tax hike, this family's deductions could only reduce its tax bill by $28,000, or what it would have been under the 28 percent rate. The tax hike would be bigger as the family's deductions increase.

This tax hike would be on top of the 3.8 percent surtax on investment income (passed as part of Obamacare) that these same families and businesses will pay beginning in 2013 and the higher marginal income tax rates they will pay if President Obama gets his way and the Bush tax cuts expire at the end of 2012. If marginal income tax rates rise, the tax increase from limiting deductions would increase as well.

The families that would pay these higher taxes are the investors that the economy needs to provide capital to businesses and entrepreneurs so they can expand and start new operations that would employ new workers. A recent study from President Obama's own Treasury Department shows

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that 90 percent of businesses that pay their taxes through the individual income tax code *and* employ workers would pay the higher taxes under the President's plan.[2]

This tax hike would negate any benefits of the President's jobs policies. Capping deductions as President Obama's plan does would raise the marginal effective tax rate of these important job creators and therefore reduce their incentives to invest and take on new risk—*permanently*. Less investment and less risk-taking means fewer new jobs created.

Since it is likely President Obama's job proposals would create few, if any permanent, positions, taken together with the tax hike on job creators, his plan would likely *reduce* employment in the long term.[3]

Industry Specific Tax Hikes. The rest of the tax hikes in President Obama's plan specifically target the oil industry and jet manufacturers. He would mostly raise their taxes by limiting their ability to "expense" (or deduct at the time of acquisition) their purchases of capital equipment.

The President's desire to strip these targeted industries of the ability to deduct their capital purchases faster than current depreciation schedules allow is at odds with his own position on expensing. The President insisted that the 2010 tax deal to extend the Bush tax cuts include 100 percent expensing for all capital purchases for all businesses for one year. This latest jobs bill—which oil and jet tax hikes are supposed to help pay for—includes an extension of that expensing policy.

More troubling is the President's apparent lack of understanding of the actual impact that his policies would have. He frames the jet tax hike as a hike on the owners of corporate jets, but the burden of his policy would fall on the workers that manufacture the jets. The tax hike would raise the cost of jets, which would reduce the demand for them. Reduced demand would ultimately result in fewer jobs for the blue-collar workers who manufacture the planes.

This is not just theory. In 1990, a 10 percent tax on luxury yachts went into effect. Congress passed the measure assuming that the rich buyers of yachts would pay the burden. But when the price of yachts rose, orders dried up and the yacht-building industry dried up as well. As *The New York Times* chronicled then, it was the blue-collar workers who lost their jobs and ended up bearing the pain of the tax.[4] The situation was dire enough that Congress repealed the devastating tax in 1993.

Stop Digging. In the Administration's poorly crafted and contradictory jobs package, the American people get *permanent* tax hikes that would enlarge the federal government to offset the cost of *temporary* jobs policies that would not create any jobs. In the long run, the tax hikes in this plan are more likely to destroy more jobs than the jobs policies create.

Unfortunately, President Obama will not consider policies that would actually create jobs by reducing the high level of uncertainty that persists in the economy today. This would include doing things such as:

- Fundamental revenue-neutral tax reform that repairs the tax base and lowers marginal tax rates to improve the incentives for income production;

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1. Sam Youngman, "Obama Proposes Tax Hikes on Wealthy to Pay for $447B Jobs Bill," *The Hill*, September 12, 2011, at *http://thehill.com/homenews/administration/180927-obama-proposes-tax-hikes-on-wealthy-business-to-pay-for-447b-jobs-bill* (September 14, 2011).
2. U.S. Department of the Treasury, *Methodology to Identify Small Businesses and Their Owners*, August 2011, table 15, at *http://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/OTA-T2011-04-Small-Business-Methodology-Aug-8-2011.pdf* (September 14, 2011).
3. See J. D. Foster, "Doubling Down on the Payroll Tax Holiday Still Won't Create Jobs," Heritage Foundation *WebMemo* No. 3358, September 8, 2011, at *http://www.heritage.org/Research/Reports/2011/09/Extending-Payroll-Tax-Holiday-Wont-Create-Jobs*; Patrick Louis Knudsen, "The President's New 'Jobs Speech': More Economic Alchemy Likely," Heritage Foundation *WebMemo* No. 3355, September 7, 2011, at *http://www.heritage.org/Research/Reports/2011/09/The-Presidents-New-Jobs-Speech-More-Economic-Alchemy-Likely*.
4. Agis Salpukas, "Falling Tax Would Lift All Yachts," *The New York Times*, February 7, 1992, at *http://www.nytimes.com/1992/02/07/business/falling-tax-would-lift-all-yachts.html?src=pm* (September 14, 2011).

- Reducing the crushing amount of regulations coming from various federal government agencies;
- Repealing Obamacare and its onerous regulations and taxes;
- Repealing the Dodd–Frank financial reform legislation; and
- Stopping incessant calls for higher taxes.

American workers do not need policies that will further inhibit job creation and dig deeper the already-deep jobs hole that the President's policies have created.

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