EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

April 17, 2012
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

H.R. 9 – Small Business Tax Cut Act
(Rep. Cantor, R-VA, and 42 cosponsors)

The Administration strongly opposes House passage of H.R. 9. The President believes that small business tax relief can promote hiring workers and increasing investment here at home. H.R. 9, however, is not focused on cutting taxes for small businesses, but instead would provide tax cuts to the most fortunate. Under the bill's definition of income, many of the "small businesses" that would receive the largest tax breaks are law partners, consultants, and other wealthy individuals and corporations with the biggest profits. The proposal is a giveaway that will cost $46 billion and could, in fact, lead to delays and reductions in investment and hiring.

While H.R. 9 has been described as a way to help small businesses, independent non-partisan analyses confirm that 49 percent of the bill's benefits would go to taxpayers making more than $1 million per year. Individuals in higher tax brackets would be able to take the bill's deduction against higher tax rates, making it more valuable for higher earners and more profitable firms. For the one percent of individuals with small business income in the top tax bracket and for profitable corporations, the deduction is worth more than double what it is worth to the two-thirds of small business owners in the 15 percent bracket or lower. Moreover, because "small business" is broadly defined and the tax relief is conditioned only on the size of payroll, many very large and highly profitable firms will be eligible for the tax break. The Administration believes that this bill is not an effective way to incentivize small business investment and job creation.

Furthermore, under H.R. 9, small businesses that invested or hired more this year would, in many instances, get a smaller tax cut than those that did not, because the bill would have the deduction taken against the amount of a company's net income from which wages for new workers or long-term investments in equipment are actually subtracted. With the deduction only available for one year, it is likely that some firms would reduce or delay new hiring or new investment as a result. The bill also opens up avenues for potential abuse, allowing a deduction for payments to family members who have been "hired" for the year as well as creating an incentive for firms to try to re-characterize current activities to earn the deduction.

Congress should act to help American small businesses hire and grow with targeted tax relief designed to boost jobs, rather than tax cuts for the most fortunate that actually discourage investment. In both his Budget and his business tax reform framework, the President put forward an ambitious plan to simplify small business tax returns and provide tax relief — including targeted employer tax relief that conditions its benefit on actual new hiring, directly encouraging job growth. Those proposals build on the 17 small business tax cuts that the President has already signed into law, ranging from the small business health tax credit to more generous depreciation. The Administration believes that this legislation fails to accomplish these goals. <u>If the President is presented with H.R. 9, his senior advisors would recommend that he veto the bill.</u>

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