

Mr. President, one thing people admire about firefighters is that when others are running away from a burning building, they run toward it. Conversely, while most people prudently avoid cliffs, President Obama and the Congressional Democratic Leadership are racing to go over the fiscal cliff Thelma and Louise-style.

Absent action by Congress, and leadership by the President, at the end of the year, almost every federal income tax payer in America will see an increase in their rates. Some will see a rate increase of 9 percent, while others will see a rate increase of 87 percent.

Though not often discussed — and though the President likes to avoid discussing it — the impact of these rate hikes will have a uniquely damaging impact on small businesses and the jobs that they provide.

Small businesses are the engine of job creation in our economy, and the rate hikes the President insists on will hit them hard, undermining economic growth and hampering innovation and job creation.

Whether we go over the fiscal cliff, or whether the President gets his way on raising rates, taxes will go up significantly on small businesses.

The President would like us to think that raising these taxes is no big deal. It will just hit people who already have a lot of money, who can “afford” to give a little more.

As President Obama put it in using his own finances as an example, absent tax increases, “I’m able to keep hundreds of thousands of dollars in additional income that I don’t need.”

With due respect, this is an amazingly naive understanding of tax rates and their impact on economic growth.

It assumes that all of the people hit by these higher tax rates are wealthy wage earners, CEOs and financiers.

It completely neglects the impact on small business income that will be subject to these individual rate hikes.

Even President Obama acknowledges that two-thirds of the new jobs in our economy are created by small businesses. And the vast majority of small businesses are organized as flow-through business entities, such as partnerships, S-corporations, limited liability companies, and sole proprietorships. In other words, these small businesses pay the individual income tax rates.

Because the vast majority of small businesses are flow-through business entities, the income from these businesses flows through the business directly onto the small business owners' individual tax returns. Therefore, any increase in individuals' tax rates means those small businesses get hit with a tax increase.

This tax increase lands on these small business owners even if they do not take one penny out of their business. Even if a small business reinvests all of its income to hire more workers, pay the workers they already have, or purchase equipment, they would still get hit with this looming tax hike.

The President, and those in his party who support these rate hikes, owe it to the American people to explain why their proposal will not adversely impact small businesses and those that depend on them for their livelihoods.

Because the data suggests that the impact will be severe.

First, according to the Congressional Budget Office, 80 percent of the revenue loss from extending the 2001 and 2003 tax relief provisions is found among those making less than \$200,000 per year if single, and \$250,000 if married.

Second, the nonpartisan official scorekeeper for Congress on tax issues, the Joint Committee on Taxation, tells us that 53 percent of all flow-through business income would be subject to the President's proposed tax hikes.

Given the agreed-upon importance of small businesses to our economic recovery, it is a mystery to me why the President and his Democrat allies would pursue tax increases on these job creators. We simply cannot afford to raise taxes on over half of all this business income.

President Obama and Congressional Democrats defend their plan by claiming that only three percent of small businesses would get hit with this tax increase.

So we should not fear raising taxes on them. However, they are misreading the Joint Committee on Taxation letter on this issue.

That letter only talks about the percentage of taxpayers affected, not the percentage of businesses affected. For instance, if ten people own one business, President Obama and Congressional Democrats count that one business as ten businesses when they make their statement about a small percentage of businesses affected.

Obviously, that is not the right way to look at this.

The truth is that they don't know what percentage of businesses they are proposing to raise taxes on, and they don't really seem to care.

The IRS publishes its Statistics of Income Data on its website, providing the most recent available tax data, which is currently tax year 2010. According to that official IRS data, when looking at the entire United States, 21 percent of the owners of S Corporations and partnerships, including Limited Liability Companies, make \$200,000 or more.

Since President Obama's proposed tax rate hikes occur on singles making \$200,000 or more, and married couples making \$250,000 or more, the vast majority of this 21 percent would get hit with a tax increase. The only portion of this 21 percent of S Corporation and partnership owners that would not be hit with the tax hike are those that are married and make between \$200,000 and \$250,000.

According to a 2011 Ernst and Young study entitled The Flow Through Business Sector and Tax Reform, citing 2007 data from the U.S. Census Bureau, over 44 million workers are employed by S Corporations and partnerships, including Limited Liability Companies. That is over 64 percent of the 69 million employees that work for flow-through businesses.

So almost 21 percent of S Corporation and partnership owners will be subject to the tax hikes on the top two rates, and over 64 percent of the workers in flow-through businesses are found in these types of businesses. And this is before we even consider the impact on owners of sole proprietorships, which employ the remaining 36 percent of employees in the flow-through sector.

So when the federal government takes an additional 5 percent of the money that these small businesses earn, the effects are clear.

Far from this being — as the President suggests — money business owners don't need, it will in fact lead to lost jobs, stagnant or reduced wages, and a decrease in investment.

The President campaigned on raising the top rates, and he seems bent on doing so.

But he owes it to American families to come clean about the impact of these hikes on the economy and on jobs.

He should come clean and just admit that his desire for redistribution trumps all other considerations.

The debate over the fiscal cliff has been quite discouraging for me.

The President knows why it is that Republicans support full extension of current tax policy.

And it is not because we are trying to defend the so-called rich.

It is because we have a genuine, and empirically grounded, concern about the impact of marginal rate hikes on small businesses, the jobs they create, and the men, women and families that depend on them.

Instead of acknowledging that marginal rate hikes would have an outsized impact on small businesses, the President has decided instead to demagogue this issue, paint Republicans as out-of-touch, and put political points ahead of jobs.

It is well past time for a grown-up conversation about tax policy. Our door remains open, and we look forward to having the President walk through it.