

FEBRUARY 24, 2004

**SCHAKOWSKY: BUSH ADMINISTRATION'S MISSTATEMENT OF THE DAY -
TAX CUTS AND SMALL BUSINESSES**

WASHINGTON, D.C. - U.S. Representative Jan Schakowsky (D-IL) issued today's "Bush Administration's Misstatement of the Day" on tax cuts and small businesses.

According to a *Washington Post* article today titled "Bush Assertion on Tax Cuts Is at Odds With IRS Data," President Bush, responding to calls by Democrats to roll back the tax cuts on those with taxable income of more than \$311,950, said:

"If you're worried about job growth, it seems like it makes sense to give a little fuel to those who create jobs, the small-business sector. So I'll vigorously defend the permanency of the tax cuts, not only for the sake of the economy, but for the sake of the entrepreneurial spirit."

However, the article states that President Bush's "contention that upper-income tax cuts primarily benefit entrepreneurs conflicts with some of the government's own data."

According to Internal Revenue Service (IRS) statistics reported in the article, "the vast majority of small businesses do not earn nearly enough money to fall into the highest income tax bracket.. IRS data from the 2001 tax year, 3.8 percent of the 18.2 million business tax returns filed that year reported taxable income of \$200,000 or more."

"In contrast," the article continues, "62 percent of business filers reported incomes of less than \$50,000, putting them at most in the 15 percent tax bracket, the second lowest. Nearly 88 percent of business filers reported income of less than \$100,000, keeping them comfortably below the top two tax brackets of 33 percent and 35 percent."

Bush Assertion on Tax Cuts Is at Odds With IRS Data

By Jonathan Weisman

Washington Post Staff Writer

Tuesday, February 24, 2004; Page A04

President Bush defended his tax cuts yesterday as economic fuel for the small-business sector in response to mounting criticism from Democratic presidential candidates that the cuts chiefly benefited the wealthiest Americans.

But the president's contention that upper-income tax cuts primarily benefit entrepreneurs conflicts with some of the government's own data.

Democratic Sens. John F. Kerry (Mass.) and John Edwards (N.C.) have pledged to restore the top two income tax rates to a maximum of 39.6 percent if elected president, but Bush and Republican allies say such a move would disproportionately punish small businesses, most of which pay individual income tax rates on their profits.

"If you're worried about job growth, it seems like it makes sense to give a little fuel to those who create jobs, the small-business sector," Bush told a gathering of the nation's governors at the White House. "So I'll vigorously defend the permanency of the tax cuts, not only for the sake of the economy, but for the sake of the entrepreneurial spirit."

Internal Revenue Service statistics cited by a Democratic senator this month show that the vast majority of small businesses do not earn nearly enough money to fall into the highest income tax bracket. According to IRS data from the 2001 tax year, 3.8 percent of the 18.2 million business tax returns filed that year reported taxable income of \$200,000 or more. The top tax bracket last year kicked in at \$311,950 of taxable income.□

In contrast, 62 percent of business filers reported incomes of less than \$50,000, putting them at most in the 15 percent tax bracket, the second lowest. Nearly 88 percent of business filers reported income of less than \$100,000, keeping them comfortably below the top two tax brackets of 33 percent and 35 percent, which Kerry and Edwards propose to raise.

Republicans point to a different statistic: Of the 750,000 tax filers that pay the top rate, more than two-thirds receive some small-business income from sole proprietorships, partnerships or small businesses incorporated as S corporations, according to the Treasury Department and the Republican staff of the congressional Joint Economic Committee.

Last week, the Republican National Committee cited that statistic in charging that Kerry "doesn't realize tax increases would hurt small businesses and farmers." Treasury officials asserted yesterday that about 75 percent of top-bracket tax returns are from "small-business owners." One official said the IRS was limiting its definition of small businesses to sole proprietorships, leaving out huge numbers of S corporations and partnerships.

But under Treasury's definition, both Bush and Vice President Cheney are members of the entrepreneurial class. In his 2002 tax return, the president reported \$1,549 from rental real estate, royalties, partnerships, S corporations and trusts, including income from GWB Rangers Corp., a remnant of his days as co-owner of the Texas Rangers. Of the Cheney household's \$1.2 million income, \$238,682 was from business ventures within the White House's definition of small business.

Economists say the broad Republican definition of "small-business man" includes not only doctors, lawyers and management consultants but also chief executives who earn \$3,000 renting out their chalets in Aspen or report \$10,000 in speaking fees. An aide on the Joint Economic Committee conceded that the definition includes the army of accountants and consultants at such giant partnerships as KPMG LLP and PricewaterhouseCoopers LLP, not the firms that "small business" brings to mind.

The aide, speaking on the condition of anonymity, said committee economists are debating whether to update the statistics to trim out such behemoths. A Treasury official, who formerly worked for one of the accounting giants, defended their inclusion, saying the partners of the major accounting firms are entrepreneurs.

If the definition is revised to stipulate that more than half a small-business person's income has to be from small-business activities, then only one-quarter of filers in the top income tax brackets would be considered entrepreneurs, said William G. Gale, an economist at the Brookings Institution.

The contrasting claims came out this month when Treasury Secretary John W. Snow appeared before the Senate Finance Committee.

"Less than 4 percent, as a matter of fact, of the small businesses and the farm returns in America are bringing in \$200,000 or more," Sen. Blanche Lincoln (D-Ark.) told Snow, confronting him with a chart on the tax rates paid by small businesses.

Pressed to respond, Snow replied: "You are asking me to comment on it, and I would like to think about it before I comment on it. The statistics we have -- I am trying to figure out how to reconcile them with the statistics you have."