Congress of the United States
Washington, DC 20515

July 16, 2009

The Honorable Nancy Pelosi
Speaker of the House
US House of Representatives
H 232, the Capitol
Washington, D.C. 20515

Dear Speaker Pelosi:

Thank you for your leadership on health care reform. Given our current economic climate with Americans losing jobs and struggling to care for their families, H.R. 3200, America's Affordable Health Choices Act, could not come at a better time. However, we are extremely concerned that the proposed method of paying for healthcare reform within this legislation will negatively impact small businesses.

Small businesses are the backbone of the American economy. They create 60 to 80 percent of new jobs, which is even more important when times are tough. Since January, Democrats have made small business needs a priority, providing $15 billion in tax relief to small firms and unlocking $21 billion in new lending and investment for entrepreneurs through the American Recovery and Reinvestment Act. If our nation is going to lift itself out of recession, small businesses will once again need to lead the way.

While the Ways and Means Committee states that the proposed surcharge in H.R. 3200 will only impact 4.1 percent of small businesses, we are concerned that this does not paint a complete picture. According to the Internal Revenue Service's 2002 Statistics of Income, 64 percent of households filing individual tax forms with AGI above $250,000 filed as an S-Corporation or partnership or filed a Schedule C sole proprietor tax form. Further, of all small businesses, 75 percent are S-Corporations where the business income is passed through to the businesses owners' individual tax return, increasing the chances that it will be impacted by the proposed surcharge.

This proposed surcharge will also have a direct negative impact on manufacturers, another industry essential for our recovery. As manufacturers are capital intensive businesses, their taxable income is often higher (nearly 70 percent of manufacturers that pay at the individual rate have an average taxable income of $570,000). Manufacturing machinery can cost over $1 million and many owners have to save for years to expand and buy new equipment. Yet those profits saved each year would be hit by this proposed surcharge, which could lead to reduced investment.

Especially in a recession, we need to make sure not to kill the goose that will lay the golden eggs of our recovery. By concentrating the cost of health care reform in one area, and in one that will negatively affect small businesses, we are concerned that this will discourage

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entrepreneurial activity and job growth. Under the existing approved budget, the Bush tax cuts would be allowed to expire, causing the marginal rate paid by wealthy individuals and small businesses to increase by 4.6 percent to 39.6 percent. Further, a surcharge would tax income above $1 million at a new rate of 45 percent. Combined with state taxes, many successful small businesses -- the very kind of business that should lead in creating new jobs and help us emerge from this recession -- will be taxed at over 50 percent.

Of more concern, the proposed surcharge would put successful family-owned companies and closely held midsize S-Corp businesses at a major tax disadvantage to their larger corporate competitors, which would continue to enjoy the favorable 35 corporate tax rate. Multinational corporations will be paying 35 percent for the same economic activity and profit that a family owned S-Corp would be paying nearly 45 percent federal taxes on.

Health care reform should be good for small business, and as long as small businesses are not unfairly burdened by H.R. 3200, we are confident that it can. We believe that any revenues for the health care program should be collected from a larger base than the critical small business sector. We encourage you to seek creative ways to reduce the overall need for revenue generation, and to propose a more equitable way of distributing the burden of any remaining needs to ensure that health care reform is a success for small business, our economy, and the millions of uninsured who stand to benefit.

Yours truly,

Jared Polis
Member of Congress

Eric Massa
Member of Congress

Glenn Nye
Member of Congress

Harry Teague
Member of Congress

Frank Kratovil
Member of Congress

John Boccieri
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