

The S Corporation Alliance

The Honorable Charles Grassley
The Honorable Max Baucus
Senate Finance Committee
Dirksen Senate Office Building
Washington, DC 20510

The Honorable William Thomas
The Honorable Charles Rangel
House Ways & Means Committee
Longworth House Office Building
Washington, DC 20515

Dear Chairman Grassley and Chairman Thomas,
Ranking Member Baucus and Ranking Member Rangel:

As representatives of hundreds of thousands of small businesses, we are deeply concerned about recent proposals to impose a massive tax increase on America's small business community.

Specifically, the Joint Committee on Taxation's "Options to Improve Tax Compliance and Reform Tax Expenditures" (January 27, 2005) includes a recommendation to broadly extend the application of payroll taxes on the net income of Subchapter S corporations. Testimony by Department of Treasury's Inspector General for Tax Administration before the Senate Finance Committee (May 25, 2005) also endorsed the proposition that the net earnings of S corporations should be subject to payroll taxes.

Subjecting the net earnings of S corporations to the payroll tax, regardless of whether they are distributed to the owners of the firm or represent return on capital, violates the long-standing principle that payroll taxes be applied to wage income.

As such, this proposal represents a massive, unfair tax increase on what are principally small and family-owned businesses. S corporations and other small businesses are the engine of economic growth in the United States. They create seven out of ten new jobs. At a time when Congress and the Administration are working together to encourage economic growth and job creation, adopting the JCT proposal would have the opposite effect.

On behalf of the hundreds of thousands of member companies we represent, including S corporations in every state – we respectfully ask that you recognize the JCT proposal for what it is – an unfair tax on small and family-owned businesses – and firmly oppose it.

Thank you for your consideration.

Sincerely,

The S Corporation Association

American Council of Engineering Companies

American Sportfishing Association

AMT – The Association For Manufacturing Technology

Associated Builders and Contractors

Associated General Contractors

Associated Industries of Massachusetts

Chamber of Commerce of the United States

Delaware State Chamber of Commerce

Fabricators & Manufacturers Association

Georgia Industry Association

Illinois Manufacturers Association

Independent Community Bankers of America

Independent Lubricant Manufacturers Association

Indiana Manufacturers Association

Institute of Scrap Recycling Industries, Inc.

Kansas Chamber of Commerce and Industry

Louisiana Association of Business and Industry

Metals Service Center Institute

Michigan Manufacturers Association

Mississippi Manufacturers Association

National Association of Convenience Stores

National Association of Manufacturers

National Beer Wholesalers Association

National Federation of Independent Business

National Restaurant Association

National Roofing Contractors Association

National Small Business Association

National Stone, Sand & Gravel Association

Nebraska Chamber of Commerce & Industry

Nevada Manufacturers Association

New Jersey Business & Industry Association

Non-Ferrous Founders' Society

North American Association of Food Equipment Manufacturers

Oklahoma State Chamber of Commerce

Precision Machined Products Association

Printing Industries of America/GATF

Tooling & Manufacturing Association

Utah Manufacturers Association

Wisconsin Manufacturers & Commerce

Wood Machinery Manufacturers of America