January 28, 2010

Dear Congressional Leader:

As organizations representing Main Street businesses with millions of middle-class workers, we are writing to express our intense opposition to any effort by Congress to apply payroll taxes to non-wage income.

Congressional leaders and the Obama Administration are reportedly considering applying some or all of the Medicare Hospital Insurance (HI) tax to non-wage income, including capital gains, dividends, interest, rental, trust, S corporation, and some partnership income. The Joint Committee on Taxation estimates that such a proposal, limited to the 1.45 percent employee’s share of the Medicare tax, would raise taxes by $111 billion over ten years.

This proposal is deeply troubling on a number of levels. First, by destroying the distinction between social insurance contributions and other taxes, it would undermine the premise that Medicare is an earned entitlement. Payroll taxes were implemented to fund Social Security and Medicare benefits for seniors. The taxes are based on a worker’s wages to resemble contributions to a private insurance program, thereby emphasizing that Social Security and Medicare benefits are earned benefits rather than “welfare.” Extending the tax to non-wage income would eliminate that distinction.

Perhaps worse, this proposal would damage the integrity of the Medicare Trust Fund. The revenue raised by this tax would not be used to fund Medicare benefits, but would instead be used for other, unrelated purposes. Yet the proposal would credit these new revenues to the Medicare Trust Fund, a step that the Congressional Budget Office calls “double counting.”

Most importantly, this new tax increase would strike at the heart of the employers who are struggling to increase savings and productivity, hire new workers and reduce double
digit unemployment, and help lead us out of this recession. Business income would be subject to higher rates, raising capital for new projects would be more expensive, and the after-tax return on savings and investment would be reduced.

Expanding the application of the Medicare payroll tax to non-wage income is an unprecedented policy that would undermine the principle that Medicare is an earned entitlement, damage the integrity of the Medicare Trust Fund, and hurt Main Street businesses and jobs. We strongly urge you to reject this misguided policy.

Sincerely,

American Council of Engineering Companies
American Rental Association
AMT - The Association For Manufacturing Technology
Associated Builders and Contractors
Independent Community Bankers of America
Independent Insurance Agents & Brokers of America
National Apartment Association
National Association for the Self-Employed
National Association of Manufacturers
National Association of Wholesalers-Distributors
National Club Association
National Federation of Independent Business
National Lumber and Building Material Dealers Association
National Multi Housing Council
National Retail Federation
Plumbing-Heating-Cooling Contractors – National Association
S Corporation Association
Society of American Florists
The Association of Convenience & Petroleum Retailing
U.S. Chamber of Commerce