

January 28, 2010

The Honorable Nancy Pelosi  
Speaker of the House  
H-232 United States Capitol  
Washington, D.C. 20515

The Honorable Harry Reid  
Senate Majority Leader  
S-221 United States Capitol  
Washington, D.C. 20510

The Honorable John Boehner  
House Minority Leader  
H-204 United States Capitol  
Washington, D.C. 20515

The Honorable Mitch McConnell  
Senate Minority Leader  
S-230 United States Capitol  
Washington, D.C. 20510

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**