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Concluding the Tax Holiday, Again

In 2001 and 2003, then-President Bush convinced Congress to declare a Tax Holiday for a specific, limited period of time, to end on December 31, 2010. In 2010, Congress extended that Tax Holiday to December 31, 2012, rather than letting the Tax Holiday end as planned. We now observe the same "debate" we watched in 2010, as to whether the Tax Holiday will finally be allowed to expire.

During the eight years prior to the 2001 beginning of the Tax Holiday, while Bill Clinton was President, the number of employment opportunities available to Americans increased steadily, and the incomes of American working people increased faster than the rate of inflation. The wealth of American homeowners increased at a rate never seen before.

By 2004, business owners realized that, with the Tax Holiday, they would pay very little federal income tax if they took profits out of their businesses, rather than re-investing in the business by purchasing new equipment or hiring more employees. Fewer jobs were created for working Americans. The competition for those fewer jobs resulted in employers not having to pay more to attract employees, so the incomes of working Americans no longer increased more than the rate of inflation. Americans of moderate means were encouraged to continue to spend as if they had more income than they actually had, by making credit cards available to everyone including unemployed students, and then convincing American homeowners to refinance their homes to pay off those credit cards. It was promoted as a patriotic duty to increase consumer spending, and made to seem vaguely treasonous if a person of moderate means chose to actually save money.

Meanwhile, the owners whose profits and dividends were being taxed at a very low rate, made what arrangements they could within the political system to have the Tax Holiday extended so they would continue to be taxed at a low rate. The strategy, in 2010 and again in 2012, is to promote the completely false position that "low taxes on the richest people promotes job growth."

The most deceptive aspect of this position is the deliberate illusion that returning the tax rate of the folks with the highest incomes to the rates that they paid in the boom years of the 1990's, somehow taxes money that would otherwise be available to hire more employees. This is a LIE. Business revenues that are reinvested in the business to hire more employees and buy more equipment and rent bigger facilities, are NOT TAXED. These are EXPENSES of the business and are deducted from the revenues to calculate the PROFIT which is taxed. Only the PROFIT is taxed, which is the money left over AFTER the employees are paid and the equipment is purchased and the rent and utilities and insurance and all the other expenditures that create jobs for working people, are paid. If the rate of tax on PROFIT is HIGH, the business owners have an incentive to re-invest in the business and hire more employees, since the owners will pay more taxes on money that is not re-invested. If the rate of tax on PROFIT is LOW, the business owners have LESS incentive to re-invest and create jobs, because they can take the profits or dividends as personal income and pay less tax.

Let the Bush Tax Holiday expire, because it is a JOB-KILLER.

- Christopher J. Mallin, Old Country Lawyer   http:// OldCountryLawyer.us