



On Jan. 1, 2013, small businesses could be staring down a fiscal cliff of about \$600 billion of tax increases and spending cuts, harming our already-fragile economy.

Of course, that's only if Congress fails to reach a compromise.

The "fiscal cliff" is what Federal Reserve Board Chairman Ben Bernanke has called the result of major fiscal events that could happen when 2012 ends and 2013 begins.

These events include a dramatic tax increase on small businesses and families, due to expiring payroll-tax rates and other tax-relief provisions.

They also include the \$1.2 trillion nearly across-the-board sequester cuts of domestic and defense programs required under last summer's deficit reduction agreement in the Budget Control Act of 2011, which President Barack Obama signed into law on Aug. 2, 2011.

These automatic cuts will affect every federal program not specifically excluded on Jan. 1, 2013.

The view from this fiscal cliff looks far too steep for small-business owners. As it stands, employee payroll taxes will increase from 4.2 percent to 6.2 percent.

This means that while traditional employers generally pay half of the payroll taxes on behalf of employees, most small-business owners are both employer and employee, so they'll have to pay both sides of the tax.

Small-business owners then will be faced with a tax that doubles from a 2 percent increase to 4 percent, which is a harsh reality to face in already tough economic times.

In addition, at year-end, a large number of tax rates and provisions enacted in 2001 and 2003 — including marginal income tax rates, marriage penalty rates and the estate tax — will expire and reset to higher levels.

The expiration of these lower tax rates will greatly affect small-business owners whose companies are organized as “pass-through” entities, where their business income is reflected on their individual tax returns.

The president would like to let the lower rates expire for income above \$200,000 for individuals and \$250,000 for married couples, which would hit thousands of small businesses.

This plan would raise taxes on about 940,000 small businesses, according to the nonpartisan Joint Committee on Taxation.

A recent economic study by independent accounting firm Ernst and Young showed that the president's proposal to raise taxes on nearly 1 million small companies would hinder small-business creation and cost more than 700,000 jobs.

The facts show that this tax increase would have a significant impact on our nation's job crisis.

Another pivotal and unwelcome change awaiting small-business owners is the possibility that the tax relief for capital purchases will end.

Currently, if a small-business owner purchases equipment for his business, he can deduct half that cost on his taxes right away, and it counts as depreciation.

However, in 2013, the depreciation rules will revert to their normal setup, which would allow small-business owners to deduct only the cost of equipment gradually for the life of the asset.

Additionally, small-business owners that rely on government contracts also would take a hard hit from the expected sequestration cuts.

During 2011, small businesses received \$91 billion in federal contracts, or slightly more than one-fifth of all the money the federal government awarded to all private organizations that year.

This share of business for small firms could drop due to sequestration.

These possibilities already are causing paralysis in a number of businesses, as many are afraid to hire or purchase with such uncertainty looming. And uncertainty is warranted, with a solution hardly in sight.

As a member of the House Small Business Committee, I have heard from small-business owners that raising their taxes at a time of high unemployment — 42 straight months of unemployment above 8 percent — makes no sense, as they are the people who can create jobs.

To address this uncertainty for small businesses, I voted on Aug. 1 to stop these tax increases at the end of this year. Surprisingly, the president has threatened to veto this legislation.

With an already unsettled economic climate, this country can't afford to have small businesses fall off of a cliff.

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