

To Pass Tax Cuts, Focus on Main Street Not K Street

By: Alfredo Ortiz

The tax cut framework recently released by Republican leadership has been greeted with cautious hope from small business owners, who, along with hardworking taxpayers, would be among its biggest beneficiaries.

The framework would significantly cut small business taxes to 25 percent from 40 percent and double the income threshold under which people pay zero tax. These changes would help the country's hardest workers, who have largely been passed over by the economic recovery. It would let them keep a little more of their earnings to pay for life's expenses.

But there's one group that hasn't greeted the tax framework positively: lobbyists. Because the tax framework also simplifies the tax code by getting rid of most deductions, lobbyists — whose jobs often depend on protecting them — are doing what they can to thwart the effort.

Simplifying the bloated tax code is a worthy goal. But I've long argued that Republicans should focus on tax cuts for now precisely because lobbyists make comprehensive tax reform much more difficult to pass. Better to get the good — tax cuts — than to shoot for the perfect — tax cuts plus simplification — and get neither.

Republicans should go after tax cuts now, get a victory this year that they can campaign on next year, then come back for comprehensive reform in 2019. Polling suggests small business and middle-class tax cuts are supported by the vast majority of the American public. Tax reform, on the other hand, is likely considered by many voters to be Beltway-speak for just shifting the tax burden around.

Still, the Republicans' framework would provide significant tax cuts, strengthening the backbone of the American economy. Such tax relief would also help reinvigorate local communities by keeping more money on Main Street than K Street. In fact, a recent Job Creators Network nationwide poll of small business

owners found that most respondents would direct their tax cut savings to worker raises, new hires, or business expansion.

Alas, tax reform is facing stiff opposition from the crony class, which threatens to derail the whole effort. Consider the framework's proposal to get rid of state and local tax deductions. Blue states benefit from this tax-code carve out because the pain of inflated blue state taxes is dulled by the federal deduction. Under the status quo, hardworking taxpayers in low-tax states are effectively helping cover the cost of the high-tax states' burden. It's no wonder, then, that the proposal to get rid of this deduction is being opposed by Republicans in blue states such as Reps. Peter King (NY), John Faso (NY), and Leonard Lance (NJ) as well as the lobbyists who represent companies located there. If they succeed in preserving this deduction, it means tax cuts will have to be reduced for those who need them most to remain deficit neutral.

In public choice economics, this dynamic is known as "concentrated benefits, diverse costs." Put briefly, the theory states that a small group that has a lot to lose can win policy fights over the greater good. Nowhere is this theory more evident than with tax reform, where high-powered lobbyists can help their industries at the expense of all Americans. The Founding Fathers greatly worried about the power of "factions" and their ability to thwart "the permanent and aggregate interests of the community."

Republicans must come together to defeat these powerful lobbying factions and preserve the proposed tax framework that strengthens the backbone of the American economy. That means putting the interests of Main Street above K Street.

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