NO, CLASS WARFARE WILL CREATE JOBS!

A number of people are talking about the spectacle of Representative John Fleming complaining about tax cuts on ~~the wealthy~~ him, suggesting that it will lead him to cut jobs. [my transcription]

> Chris Jansing: With all due respect, Congressman, the WSJ estimated that your businesses, which I believe are a [sic] Subway sandwich shops and UPS stores—very successful—brought you last year over $6 million dollars.
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> Fleming: Yeah, that's before you pay 500 employees, you pay rent, you pay equipment, and food. Ah, the actual net income of that was only a mere fraction of that amount.
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> Jansing: So you're saying that if you have to pay more in taxes, you would have to get rid of some of those employees? These are not as successful businesses—
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> Fleming: I would say that since my net income—and again, that's the individual rate that I told you about—the amount that I have to reinvest in my business and feed my family is more like $600,000 of that $6.3 million. And so by the time I feed my family, I have only $400,000 left over to invest in new locations, upgrade my locations, buy more equipment.

Now, aside from the point that Laura Clawson makes—which is that even if most of his costs are wages, then he's only paying each of those claimed 500 employees $11,400 a year, and aside from the point that Sam Seder makes—which is that this $600,000 is on top of the $174,000 he makes as a Member of Congress (which of course also means he doesn't have to pay for his own health care), Fleming is blowing smoke about how business owners are taxed.

They’re taxed after all business investments are deducted, not before.

That is, assuming Fleming isn’t paying himself a wage (it doesn’t sound that way given the way he mixes his reinvestment and “feed the family” amounts), then what happens is he reinvests $400,000 of his net profits, and then takes what is left over, $200,000, which is what he’d be taxed on. Say he paid an effective tax rate of 32% on that, so $64,000.

Under Obama’s plan, Fleming would:

- Pay the tax rate he would have paid in 2001–effectively about 35%
- Lose some deductions (only because of his Congressional salary though–without it, what he claims is his take home pay would not be high enough to hit the $250,000 income level at which those deductions are removed)

So say he paid 35% (he also might lose what I presume is a deduction for a second home in DC). That would mean he’d pay taxes of $70,000.

His poor family! Having to eat off of just 2.6 times the median pre-tax income of $49,445 in this country (not counting the Congressional salary, of course).

Lucky for Fleming, there is a way he can keep paying the same amount in taxes. If he reinvested $417,142 rather than $400,000 in his business, then he’d still pay the same $64,000. Sure, his family would really suffer, living off of just 2.4X the median pre-tax income (still ignoring the Congressional salary). [Update: As Mary points out, I’ve oversimplified this–100% of the investments aren’t deductible in the first year.]

But since he seems to be making a 10% return on his business, that’s not actually a bad idea—it’s as good an investment as you’re going to find in this day and age.

And the best part? Given the shitty wages he apparently pays his employees, the extra $17,142 he invests back in his businesses would more than … create a job!