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John Heagney of Webster Groves has advice for Alderman Freeman Bosley Sr. on paying for college. "Call your son! He was obviously sharp enough to spot a real estate bargain when he saw one and pretty much made out like a bandit. Anybody that talented would know to sock at least some of that money away so ask him to fill the tuition gap."

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DANIEL C. WILLINGHAM

How Congress can define the new 'normal' for Missourians

Ending gridlock • Reform the tax on pass-through businesses to help reduce unemployment.

Since the onslaught of the Great Recession, the unemployment rate has been dismally high. Now that Congress is moving to reform tax laws for pass-through businesses that can hire in Missouri, it must raise its standards, reduce unemployment, and stop accepting childish gridlock as "normal."

Upon entering office, President Barack Obama and his aides assumed that the unemployment rate would magically fall to 5 percent by the end of his first term. Unfortunately, in Missouri we are sitting at 6.6 percent. Even worse, the unemployment rate for those in the Show-Me State who stopped looking for work lags at an embarrassing 12.2 percent. Meanwhile, Missouri's jobless rate for 18- to 29-year-olds, a group that includes many recent college graduates, lags beyond 15 percent.

Fixing the tax regime for pass-through businesses presents a major opportunity to drop the disgraceful unemployment rate in Missouri, especially for recent graduates. Pass-through entities,

which include partnerships and limited liability companies, account for 95 percent of all businesses and 54 percent of the private sector workforce.

Thanks to the sloppy "fiscal cliff" soap opera, tax rates actually increased for pass-through businesses that have equity holders in the top tax bracket. This increase of 35 percent to 39.6 percent has perpetuated the astronomical unemployment rate. After all, the 4.6 percent tax increase on business income of \$1 million amounts to \$46,000, which — if not spent on taxes — could pay the salary of a strong middle-class worker.

Because slow hiring overwhelmingly harms those with less work experience and fewer industry contacts (i.e. recent graduates), this tax increase has guaranteed double-digit unemployment numbers for Missourians under 30 unless members of Congress work together to create an offsetting incentive to hire.

In their book "Getting to Yes: Negotiating Agreement Without

Giving In," Roger Fisher, Bruce Patton and William Ury of the Harvard Negotiation Project argue that navigating through gridlock requires that both sides avoid bargaining over positions. Positional bargaining, as we saw during the "fiscal cliff" standoff, occurs when two sides close-mindedly demand what they want and refuse to consider any reasonable alternatives.

Instead of looking at positions alone, the method endorsed in "Getting to Yes" focuses on the interests that underlie one's position. By not emphasizing what each side wants, but by concentrating on why they want it, both sides are better prepared to consider innovative ways to obtain that interest.

Congress must pursue an interest-based solution that encourages pass-through businesses to hire by giving them an option to essentially keep the 35 percent rate. To accomplish this, Congress needs to establish a tax credit that is capped at the lesser of new employees' salaries or 4.6 percent

of the employer's taxable income in the top marginal tax bracket. This legislation should:

- Ensure that the new employees were part-time or unemployed just prior to hiring;
- Pay the credit pro-rata according to the new employees' period of employment during each taxable year to incentivize retention; and
- Expire at the end of 2014, at which time Congress can consider renewing it or gradually phasing it out, depending on the unemployment rate at the time.

This tax credit for pass-through businesses that hire would raise revenue by getting the new employees off government assistance, while preventing new graduates from ever relying on it, and allow them to become contributing taxpayers. Meanwhile, non-hiring pass-through businesses with equity holders in the top bracket can help provide revenue to reduce the deficit by paying the higher 39.6 percent rate. Pass-through businesses with no

equity holders in the top bracket are unaffected because they were not hit with an increase in their marginal tax rates this year.

Thus, this tax credit would successfully reconcile the interests of spurring job growth, creating opportunities for new graduates, paying down the deficit, and ensuring that the wealthy pay their "fair share."

Although compromise is never easy, it is now necessary because neither party has enough leverage to strong-arm the other. Our new tax laws will perpetuate high unemployment rates in Missouri unless both parties work together to smooth over the detrimental kinks.

If Republicans and Democrats fail to raise their standards, then so will the next generation of Missouri college graduates who are tragically coming to accept the unemployment line as "normal!"

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