

Employee Meeting

**FOOD FOR THOUGHT:
A REASONABLY ACCURATE
PORTRAYAL OF WHAT COULD
OCCUR IN A TYPICAL SMALL
BUSINESS WITH THE CURRENT
POLITICAL CLIMATE.**

I recently received this excellent example of Economics 101 in an e-mail from Roger J. Sustar, the president and owner of Fredon Corporation (Mentor, OH), a contract manufacturer that machines complex parts at high tolerances for aerospace, aircraft, defense, medical, and off-highway equipment applications. It was originally sent to him by David Verbic of Accurate Metal Sawing Service in Mentor. Kudos and thanks to Roger and Dave. Let the class begin. Our speaker is the owner of a small business: "I would like to start by thanking you for attending this meeting, though it's not like you had much of a choice. After all, attendance was mandatory. I'm also glad many of you accepted my invitation to your family members to be here as well. I have a few remarks to make to all of you and then we'll retire to the ballroom for a great lunch and some employee awards. "I felt this meeting was important enough to close all 12 of our tire and automotive shops today so that you could be here. To reassure you, everybody is being paid for the day-except me. Since our stores are closed we're making no money. That economic loss is mine to sustain. Carrington Automotive has 157 full time employees and around 30 additional part-timers. All of you are here. I thank you for that.

"When you walked into this auditorium you were handed a rather thick 78-page document. Many of you have already taken a peek. You were probably surprised to see that it's my personal tax return for 2008. Those of you who are adept at reading these tax returns will see that last year my taxable income was \$534,000. I'm sure this seems rather high to many of you. So...let's talk about this tax return.

"Carrington Automotive Enterprises is what we call a Subchapter S corporation. In our tax code, Sub-S status means that the income from all 12 of our stores is reported on my personal tax return. Businesses that report their income on the owner's personal tax return are referred to as small businesses. So you now see that this \$534,000 is really the total taxable income of the combined profit from all 12 of our stores. That's an average of just over \$44,000 per store.

"Why is it important for you to see my 2008 tax return? Well, there's a lot of rhetoric being thrown around today about taxes, small businesses and rich people. To the people in charge in Washington right now I'm a wealthy American making over a half-million dollars a year. Most Americans would agree I'm just another rich guy. In this room, though, we know the reality: I'm a small business owner who runs 12 retail establishments and employs 187 people. Now here's something that shouldn't surprise you, but it will: 99.7 percent of all employers in this country are small businesses, just like ours.

"Every one of these businesses reports their income on a personal

TAXES

Most Americans don't realize that when government talks about raising taxes on people making more than \$250,000 a year, they actually plan to raise taxes on small businesses. The U.S. Treasury Department says six out of every ten individuals in this country with incomes of more than \$280,000 are actually small business owners. About one-half of the income in this country that is subject to these increased taxes comes from small businesses

income tax return. You need to understand that small businesses like ours are responsible for about 80 percent of all the private sector jobs in this country, and about 70 percent of all jobs created over the past year. You also need to know that when you hear some politician talking about rich people who earn over \$200,000 or \$500,00 a year, they're talking about the people who create the jobs.

"The people running the show in Washington have talked for months about raising taxes on wealthy Americans. I already know that in two years my federal income taxes are going to increase by about 4.5 percent when the Bush tax cuts expire. When my taxes climb by 4.5 percent, the Democrats will be on television saying this isn't really a tax increase. They'll explain that the Bush tax cuts have expired. Nothing more. Here at Carrington we'll know that almost 5 percent has been taken right off of our bottom line. And that means it will be coming off your bottom line.

"Numbers are boring, I know, but let's talk a bit more about that \$534,000. That's the money left last year from company revenues after I paid all of the salaries and expenses of running the business. Now I could have kept every penny of that for myself, but that would have left us with nothing to grow our business, to attract new customers and to hire new employees. You're aware we've been talking about opening new stores in Virginia Beach and Newport News. To do that I must buy or lease property, construct a building and purchase inventory. I must also hire additional people to work in those stores.

"These people won't immediately be earning their pay, so where do you think the money for all of this come from? Right out of our profits-that \$534,000. I need to advertise to bring customers in, especially in these tough times. Where do you think that money comes from? Oh sure, I can count it as an expense when I file my next income tax return, but for right now that comes from either current revenues or last year's profits. Revenues right now aren't all that hot...so do the math. An effective advertising campaign might cost us more than \$300,000.

"Is this all starting to come together for you now?"

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