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The 'undertaxed rich'

Written by Michael Whalen

One of the properties my company owns is a 100-room limited-service hotel in Iowa. Let me talk about the taxes this one place pays. I will use 2008 numbers.

For starters, we pay property taxes to the tune of about \$199,000 annually.

Next, there is a 7 percent "pillow tax" that generates about \$162,000 annually. Then we pay a 6 percent sales tax on revenue that yields about \$124,000 annually. Then we also pay sales tax on things like toilet paper, shampoo, soap, continental breakfast food and amenities and other items that the state of Iowa says are not really part of the product we sell because it says we are selling space. It may come as a surprise to you that toilet paper is not part of what you are buying when you rent a hotel room in Iowa, but the state considers it a gift. Those extra sales taxes come to about \$1,800 per year.

Now on to Round 2. This little hotel also pays about \$3,000 a year in various licenses and fees. Payroll taxes come to about \$60,000. The federal government says the depreciable life of a hotel is 39.5 years, but we refurbish the hotel on a constant basis and pay sales tax on related purchases, such as new carpet, mattresses and bedding, and even paint. Anyone who does not believe we already have a partial value-added tax

(VAT) like Europe, isn't in business. Now, between Round 1 and Round 2, we are at \$548,000 in taxes annually.

So, even if we don't make a dime of profit, and before we pay the mortgage to the bank or buy new stuff, we pay \$548,000 in various taxes, licenses and fees.

Round 3 is income taxes at the federal and state level. I am not going to tell you these numbers, but I can tell you they can be substantial. Because the hotel is owned by a Subchapter S corporation, in which taxes are paid by shareholders rather than the corporation, the income is reported on my personal income-tax return even though it's not really my personal money. But President Obama and many in Congress think we don't pay enough in taxes because we are "rich."

A few years back, I was telling this story of taxes on one little hotel to an important elected official. He replied, "You don't pay those taxes, your customers do. I don't get your point." I stood there dumbfounded and simply replied, "My customers pay all of our taxes? Where do you think money comes from?" I swear this is a true story.

I understand that most folks in state legislatures and Congress have never been in business, paid these taxes or met a payroll. But I cite the experience of venerable pro-tax Sen. George McGovern, who went into the bed-and-breakfast business after he retired from the Senate. Unfortunately, he went bankrupt. When asked what this experience had taught him, he said that he would have voted a lot differently if he had been in business before going to Congress. He is an honest man.

Like the Little Engine That Could, this one little hotel pulls a big load. We are not undertaxed.

Oh, by the way, if I sell the hotel, I will pay a hefty capital gains tax of 25 percent, and it's probably going up. Alternatively, when my wife and I die, I will pay another 45 percent if the estate tax returns in 2010. But don't worry: We have diverted money from productive investments to pay for life insurance to partially pay this bill.

Thank God entrepreneurs are optimists, or they would never start.

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