



New Math: McCain Surrogate Claims that 23 Million Small Business Owners Are Among Nation's Richest 1.4 Million Taxpayers!

Carly Fiorina, a surrogate for the presidential campaign of Senator John McCain, recently [said](#) that under the tax plan of McCain's opponent, Senator Barack Obama, "23 million small businesses will see their taxes raised" because "23 million small businesses file their income tax as individuals."

Senator Obama has promised that, if elected, he will allow the Bush tax cuts for people in the top two tax brackets to expire (as current law already provides).¹ According to the U.S. Treasury Department, only 1.4 million taxpayers will be in the top two tax brackets this year.

Although it's impossible to determine how many of those 1.4 million taxpayers are small-business owners,² two things are crystal clear: It's a lot less than all of them, and it's certainly not 23 million.

"John McCain has admitted that economics is not his strong suit," noted Robert S. McIntyre, director of Citizens for Tax Justice. "Apparently, he and his surrogates don't even grasp basic arithmetic."

Fiorina previously achieved notoriety as head of Hewlett-Packard, where she spearheaded HP's 2002 merger with Compaq Computer. That merger, which led to Fiorina's firing, turned out to be one of the biggest corporate follies since Dick Cheney, as head of Halliburton, bought an asbestos company in 1998, a deal that subsequently cost Halliburton billions of dollars to settle hundreds of thousands of medical-injury claims.

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¹Specifically, Obama has, perhaps foolishly, promised to retain the Bush tax cuts for everyone making less than \$250,000 a year. Most analysts have interpreted that promise to mean that only the Bush reductions in the top two tax income tax rates will be allowed to expire. In 2008, the second highest tax rate begins at \$200,300 in taxable income for joint returns, which translates into about \$250,000 in adjusted gross income.

²The IRS provides some information on tax returns that report income from unincorporated businesses (whose earnings are taxed only at the personal level). But it is insufficient to determine which taxpayers are actually small-business owners.

Schedule C is filed by "sole proprietors." About 9 million taxable filers report profits on Schedule C. One might think that all of these are true small businesses. In one sense that's true, but many of these "businesses" are just sidelines. For example, Vice-President Dick Cheney and his wife Lynne Cheney reported substantial Schedule C income on their 2004 tax return because of Lynne's book royalties. But few would think of the Vice-President or his wife as running a small business. For filers who report Schedule C income, on average it represents only a third of the total income they report on their tax returns. That suggests that most of these people are not primarily engaged in business activities.

In addition, millions of workers are treated by their employers as "independent contractors" (often illegally). These workers are really employees, but must file Schedule C to report their earnings.

It's also worth noting that less than 10 percent of Schedule C filers have any employees.

Partnerships and "Subchapter S Corporations" are organizations with more than one owner. The profits from these organizations are divided up among the owners and taxed to them personally (after deducting any wages that the partnership may pay to partners). But many of the owners of such businesses are not engaged in running the businesses, but are simply passive investors. In addition, many of these organizations are not businesses at all, but are just investment vehicles or tax shelters.

About 5 million partners and Subchapter S corporation owners report profits from these organizations on their tax returns; another 2.5 million report losses. How many of these people should be considered "small-business owners" cannot be determined, although it's probably a quite low proportion.

All in all, it's probable that far fewer than 10 million tax returns are filed by people who really own and run profitable, unincorporated small businesses. Anyone who claims a much higher number (or a more precise estimate) should not be trusted.