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## **House Surcharge Proposal Unlikely to Have Noticeable Impact on Small Businesses**

The health care reform legislation being discussed in the House of Representatives (H.R. 3200) includes a surcharge on taxpayers with adjusted gross income (AGI) over \$350,000 (or \$280,000 if single).

### **1. Only about one in one-hundred are rich enough to be subject to the surcharge.**

The Congressional Joint Committee on Taxation (JCT) found that only the richest 1.2 percent of taxpayers would pay the surcharge, and Citizens for Tax Justice (CTJ) projected an almost identical 1.3 percent paying the surcharge.<sup>1</sup>

### **2. The surcharge paid by the rich would be less than they got from the Bush tax cuts.**

The \$544 billion that the surcharge would raise over ten years would be almost entirely paid by the richest one percent of taxpayers and would be less than the \$700 billion this group will have received from the Bush tax cuts by the end of 2010.

### **3. Only a tiny fraction of small business owners would pay the surcharge.**

There are different ways to define a "small business owner" and different ways to estimate the impact of the surcharge, but very few would have to pay the surcharge no matter how the impact is estimated. JCT finds that only 4.1 percent of taxpayers with any small business income at all would have enough income to be subject to the surcharge.

CTJ has found that only 4 to 5 percent of taxpayers who get more than half their AGI from small businesses that they are involved in operating would pay the surcharge in 2011.<sup>2</sup>

### **4. Even for those few small business owners who would pay the surcharge, the surcharge would have no effect on their hiring decisions.**

Money that a small business owner pays to an employee as wages or salary is not even included in the business owner's AGI or taxable income. A small business owner only pays taxes on business profits — what is left after wages and salaries and other operating expenses have been paid. Even if a small business owner wants to expand operations by purchasing new equipment, they typically benefit from small business "expensing." This means they pay no taxes on money used to purchase equipment.<sup>3</sup>

### **5. The health care reform that will be funded by the surcharge will make it cheaper to hire workers.**

The House bill would provide small businesses with tax credits of up to 50 percent of the cost of providing health insurance to employees. It would also stop insurance companies from discriminating against small companies based on the health status of their employees and from denying services because of pre-existing conditions. These measures would make health care costs far more predictable and manageable for small businesses.

<b>Percentage of Taxpayers Who Would Pay the Graduated Surcharge in H.R. 3200</b> (listed by state, in alphabetical order)			
Alabama	0.9%	Montana	0.9%
Alaska	1.1%	Nebraska	0.8%
Arizona	0.9%	Nevada	1.4%
Arkansas	0.6%	New Hampshire	1.3%
California	1.9%	New Jersey	2.1%
Colorado	1.5%	New Mexico	0.8%
Connecticut	2.8%	New York	1.8%
Delaware	1.1%	North Carolina	0.9%
District of Columbia	2.7%	North Dakota	1.0%
Florida	1.5%	Ohio	0.8%
Georgia	1.1%	Oklahoma	1.0%
Hawaii	0.9%	Oregon	1.1%
Idaho	0.7%	Pennsylvania	1.0%
Illinois	1.6%	Rhode Island	0.8%
Indiana	0.7%	South Carolina	0.9%
Iowa	0.8%	South Dakota	1.1%
Kansas	0.9%	Tennessee	0.9%
Kentucky	0.7%	Texas	1.5%
Louisiana	1.0%	Utah	0.9%
Maine	0.9%	Vermont	0.9%
Maryland	1.7%	Virginia	1.4%
Massachusetts	2.4%	Washington	1.7%
Michigan	0.7%	West Virginia	0.5%
Minnesota	1.2%	Wisconsin	0.9%
Mississippi	0.6%	Wyoming	1.7%
Missouri	0.9%	<b>United States</b>	<b>1.3%</b>

Source: ITEP Microsimulation Tax Model, July 2009

1. Citizens for Tax Justice, "Health Care Reform Financing Options: House Proposal to Apply a Graduated Surcharge to Incomes Over \$350,000," Updated July 15, 2009. (This report includes state-by-state figures.) <http://www.ctj.org/payingforhealthcare/surchargeproposalwaysandmeans.pdf>

2. When we say "taxpayers who get more than half their AGI from small businesses that they are involved in operating," we are referring to "non-passive" forms of small business income. Passive income generally refers to income like stock dividends or interest or other types of income you receive from a business that you have a stake in but that you are not actively involved in. Taxpayers who receive large amounts of passive income are not who we generally think of as "small business owners." More specifically, we defined small business income to include the sum of non-passive partnership income, non-passive Subchapter S corporation income, sole-proprietorship income (schedule C) and farm income (schedule F). Losses are not counted.

3. Small business owners can immediately deduct ("expense") up to \$250,000 for the cost of equipment placed into service in 2009 under section 179 of the tax code.