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## Obama budget: Two-thirds of small business profits subject to higher taxation

WASHINGTON, D.C.— President Obama is touting all the supposed advantages his budget has for small businesses.

But under his plan, the top two income tax rates increase from 33 and 35 percent to 36 and 39.6 percent. **Two-thirds of small business profits pay taxes in these bracket levels. Small businesses pass their profits through to their owners, who pay income tax on them.** To raise taxes on "the rich" is a laser-beam tax hike aimed at small employers.

Small business owners also have to pay the Medicare portion of the self-employment tax at the high margin. Furthermore, they will face a phaseout of their itemized deductions (Pease) and personal exemptions (PEP) under the Obama budget, unlike 2010 law.

What does that mean for the marginal tax rate on small business activity? Assuming a 5 percent state income tax rate, the calculation is the following for a sole proprietor or general partner (S-corporation owners don't have to pay Medicare tax, so it will be slightly smaller for them):

Tax	Rate
Federal Income	39.6%
State Income	5.0%
Self Employment	2.9%
SE Deduction	(0.65%)
PEP and Pease	2.34%
Total	49.19%

So, the top marginal tax rate on small business income will rise to 49.19 percent, up from about 41 percent today. This is a huge increase in the tax rate on most small business profits. Will President Obama share this fact with entrepreneurs anytime soon?

*Americans for Tax Reform is a non-partisan coalition of taxpayers and taxpayer groups who oppose all tax increases. For more information or to arrange an interview please contact John Kartch at (202) 785-0266 or by email at [jkartch@atr.org](mailto:jkartch@atr.org).*

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