



NEW SURTAX ON SMALL EMPLOYERS IN HOUSE DEMOCRAT HEALTH SCHEME WILL ENDANGER MILLIONS OF JOBS

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- One of the most economically-destructive aspects of the House Democrat health bill is the new 5.4 percent “surtax” on adjusted gross income (AGI) exceeding \$1 million (\$500,000 if other than married filing jointly). This is found on page 336 in H.R. 3962. When combined with the top marginal tax rate of 39.6 percent due to take effect in 2011, this provision has the same effect as creating a brand new top tax bracket of 45 percent (and without even an inflation adjustment over time).
- The House Democrat leadership will tell you that this is a new tax on “the rich.” This is absurd. The truly rich will re-arrange their finances in such a way as to never pay the tax. It’s much more likely that this tax will hit small and medium-size employers, who pay taxes on their owners’ 1040 forms. At this level of income, most unincorporated businesses take the form of partnerships and Subchapter-S corporations, whose taxes are paid at the owner level.
- According to the IRS (Table 1.4 of the *Statistics of Income*), these small business employers earned a net \$414 billion in 2007. **Of this, some \$236 billion—57 percent—was earned in households with AGI of \$1 million or more. The 5.4 percent surtax will tax these businesses some \$13 billion per year.** That money has to come from somewhere, and the answer is “jobs.”
- What does this mean for jobs? The partnerships and S-corps that earn more than \$1 million per year are the ones that have enough capital to employ people. Assuming that most of these are the firms which employ 20 to 499 people (any larger and they probably are incorporated, any smaller and it’s other businesses), the Census Bureau *Statistics of U.S. Businesses* reports that 626,000 of these small employers gave jobs to 38.6 million Americans (about one-third of everyone employed), and paid out an average of \$36,000 in salary in 2006.
- The new 5.4 percent surtax can be expected to raise \$13 billion per year in new taxes from these successful small and mid-size employers. By way of illustration, if this tax were paid for entirely by cutting wages for these 38.6 million employees, the average wage would decline by over \$300 per year—another hidden cost to the radical Pelosi-Rangel-Obama plan to create a government healthcare system.

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