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PRESIDENT'S RADIO ADDRESS AND OTHER ADMINISTRATION STATEMENTS EXAGGERATE TAX PLAN'S IMPACT ON SMALL BUSINESSES

In his radio address today, President Bush said that “small businesses stand to gain a great deal” from his tax-cut plan because 23 million small business owners would receive tax cuts averaging \$2,042 this year. Unfortunately, the President’s statement was misleading in several respects.

In fact, *79 percent of tax filers with small business income* — or nearly four of every five such tax filers — *would receive less than this amount*, according to data issued by the Urban Institute-Brookings Institution Tax Policy Center. A majority of returns with small business income would get \$500 or less. The *average* tax cut is \$2,042 only because a small number of wealthy individuals who have some small business income would receive much more than that amount; the millions of more-typical small business people would receive much less. (Similarly, the Administration has used averages in a misleading fashion to overstate the impact of its tax plan on the elderly and on taxpayers generally.)

In his radio address, the President also repeated Administration claims that his proposal to accelerate the reduction in the top income tax rate would benefit small business owners broadly because two-thirds of all tax filers who pay the top rate — 500,000 out of 750,000 such filers — are small business owners. This statement, as well, is misleading in two respects.

- The two-thirds figure is derived by counting all tax filers with *any* business income as “small business owners.” Thus, wealthy individuals who do *not* run small businesses and simply have passive investments in partnerships, S corporations, and the like are counted as “small business owners” as though they ran a corner store. When a more reasonable definition of “small business owner” is used, one that examines sole proprietorships with positive business income, only about *one-fourth* of those who pay the top income tax rate turn out to be small business owners, according to an analysis by Citizens for Tax Justice.
- Even if the Administration’s claim that two-thirds of all filers who pay the top rate are small business owners were valid, it would *not* mean that the reduction in the top rate would broadly help small businesses. The Treasury Department’s own figures show that the 500,000 “small business owners” said to pay the top rate constitute only *two percent* of small business owners.

Moreover, a key feature of the President’s plan — the exclusion of corporate dividends from individual income taxation — could harm small businesses, in two ways. First, it would attract investment dollars away from small businesses into corporate stocks that issue tax-free dividends. Second, it would increase the cost of borrowing for small businesses by raising long-term interest rates. (Interest rates would rise as dividend-paying stocks became more attractive investments relative to bonds and as long-term deficits rose.) While the President’s plan also includes an “expensing” provision that would benefit small businesses by increasing the amount they can deduct for investments, the likely increase in interest rates would mitigate the benefits of that provision.