



CENTER ON BUDGET AND POLICY PRIORITIES

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ABOUT ONE PERCENT OF SMALL BUSINESS OWNERS PAY 39.6 PERCENT TAX RATE

Recent Administration Statements Create Misleading Impression

On March 16, President Bush gave a speech to small business owners in which he stated that “According to the Treasury Department, nationwide there are more than 17.4 million small business owners and entrepreneurs who stand to benefit from dropping the top rate from 39.6 to 33 percent.”¹ This new claim, which has received substantial attention, is inaccurate. It misrepresents the Treasury Department’s figures.

A Treasury press release issued the same day states that “many” of these 17.4 million individuals pay the top rate. The press release, as well, is likely to create a mistaken impression. In fact, only about *one percent* of these 17.4 million small business owners and entrepreneurs pay the top rate. IRS data show that only a total of 691,000 taxpayers in the country — including taxpayers who are not small business owners — paid the top rate in 1997, the latest year for which these data are available.

President’s Speech and the Treasury Press Release

President Bush’s speech suggests that *all* 17.4 million small business owners and entrepreneurs would benefit from the decline in the top rate. The Treasury Department release states that *many* of these 17.4 million individuals would benefit from reducing the top rate. The release says “it is evident that at least 17.4 million small business owners and entrepreneurs, *many of whom* currently pay at the 39.6 percent rate, stand to benefit from the President’s tax relief plan”² (emphasis added). At least one news story reported the figure from the President’s speech; a Reuters story reported that “17.4 million small business owners now pay the top rate of 39.6 percent.”³

How Many is “Many”?

The Treasury Department failed to disclose a specific figure for the number of such taxpayers who

actually pay the top rate. This leaves it to the reader to guess how many is “many” and whether or not the typical small business owner pays this rate.

Other Treasury data, however, make clear that the vast majority of small business owners and entrepreneurs do *not* pay the 39.6 percent top rate. The latest published figures on the number of taxpayers who pay the top rate, which are for 1997, show that 691,000 taxpayers in the nation were subject to the top rate that year. This 691,000 figure includes individuals who are not small business owners — such as corporate executives, wealthy investors, and highly paid athletes and entertainers, among others. Even if *all* of these taxpayers were small business owners, which they are not, this figure would mean that fewer than 5 percent pay the 39.6 percent rate.

Citizens for Tax Justice, using data from the Institute on Taxation and Economic Policy model, finds that only about one percent of small business owners pay tax at the 39.6 percent rate and thus would benefit from the Administration’s proposal to reduce the top rate.

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1. “Remarks by the President During Meeting with Small Business Owners,” The White House, March 16, 2001.
 2. “Treasury Releases Latest Number of Income Tax Returns Filed by Small Business Owners and Entrepreneurs,” U.S. Department of Treasury, March 16, 2001.
 3. “White House Considers Speeding Up Tax Cuts,” Reuters, March 16, 2001.