



## AMERICANS *for* TAX REFORM

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### THE OBAMA TRILLION DOLLAR TAX HIKE BUDGET:

### *HOW WILL IT IMPACT SMALL BUSINESS?*

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*The Obama budget plan was released in February of 2009. For the next several weeks, Congress will be debating this flawed, trillion-dollar tax increase budget. Americans for Tax Reform will be looking at how the Obama trillion dollar budget impacts Americans in various ways.*

*Today, we look at small businesses.*

- There are 5.9 million small employers in the United States (defined by the Census Bureau as firms employing 99 or fewer employees). Three out of ten Americans workers get their paycheck from these firms
- In addition, there are over 20 million businesses that have no employees at all. These are largely sole proprietors and other professionals
- What these business owners and business employers have in common is that they all pay taxes on their owner's 1040 personal tax form
- According to the IRS, \$2 out of \$3 in small business profit occurs in households making at least \$200,000 per year—the same families that the Obama budget would raise taxes on
- By raising the top tax rates from 33/35 percent to 36/39.6 percent, the Obama budget raises the tax rate on \$2 out of every \$3 in small business profit. Breaking it down further, it raises the tax rate on 40 percent of sole proprietor profit and 90 percent of S-corporation and partnership profits
- In addition, the Obama budget brings back the death tax (in a footnote, no less). Rather than the death tax going away in 2010, it's locked in at its current-year level. Forevermore, family farms and small businesses would have to plan around a 45 percent death tax rate. The exemption would be \$3.5 million (\$7 million for married couples), but there's no inflation adjustment for this. Small businesses either need to hire expensive estate lawyers, or choose between paying the death tax and selling the family business