


Congress of the United States

JOINT COMMITTEE ON TAXATION

Washington, DC 20515-6453

APR 08 2009

MEMORANDUM

TO: Mark Prater 
FROM: Edward Kleinbard
SUBJECT: Revenue Estimate

This memorandum is in response to your request of April 7, 2009, for an estimate of the number of taxpayers with business income who would be taxed at a marginal income tax rate of 36 percent or 39.6 percent in calendar year 2011 under the proposals contained in the President's Fiscal Year 2010 Budget, as presented in the budget overview released on February 26, 2009.

We project that approximately 25.2 million taxpayers will report net positive business income on their 2011 individual income tax return. For purposes of this analysis, business income consists of income from sole proprietorships (Schedule C); farm income (Schedule F); and income from rental real estate, royalties, partnerships, subchapter S corporations, estates and trusts, and real estate mortgage investment conduits (Schedule E), as would be reported on lines 12, 17, and 18 of the 2008 Form 1040. We do not count as "business income" income from interest, dividends, or capital gains that may flow through certain pass-through entities but which is reported elsewhere on an individual's return.

If the proposals contained in the President's Fiscal Year 2010 Budget were enacted, we estimate that just over 750,000 taxpayers with net positive business income would be taxed at a marginal income tax rate of 36 percent or 39.6 percent in 2011. (Taxpayers whose marginal tax rate for the regular income tax is 36 percent or 39.6 percent, but who we project will pay the individual alternative minimum tax, are not included.) This represents approximately three percent of all taxpayers reporting net positive business income on their individual income tax returns in 2011.

We project net positive business income reported on individual income tax returns will be just over \$1 trillion in 2011. We further project that the total net positive business income for taxpayers who have some income taxed at a marginal income tax rate of 36 percent or 39.6 percent under the President's budget proposals would be \$470 billion. (Of course, not all of the \$470 billion in net positive business income for these taxpayers would be taxed at the 36 percent or 39.6 percent rate, by virtue of the tax system's marginal rate structure.) Finally, we estimate that approximately \$88 billion would be taxed at the 36 percent rate, and \$349 billion would be taxed at the 39.6 percent rate.