

## Issue Brief: Claims that a ‘Millionaire’s Tax’ Hurts Small Business Miss the Mark

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Repeated claims by corporate lobbyists that calling on New Jersey’s wealthiest households to pay their fair share in state income taxes would hamper small businesses are wrong for two big reasons:

**One:** More than 90 percent of small business owners wouldn’t pay a penny more in taxes, because their profits are well below the \$500,000 threshold where tax increases would take place.

**Two:** For too long New Jersey has given such a big break to wealthy residents and large-profitable corporations that the state lacks the resources to invest in what brings long-term growth and broad prosperity – schools, higher education, state-of-the-art transportation, safe communities and other building blocks of a strong economy.

Business lobbyists claim that a so-called millionaire’s tax is “a tax on small business,” since most small business owners run their business income tax through their personal returns.<sup>1</sup> They argue that increasing personal income taxes on the wealthiest New Jerseyans would prevent small businesses from reinvesting money in their companies and creating new jobs.

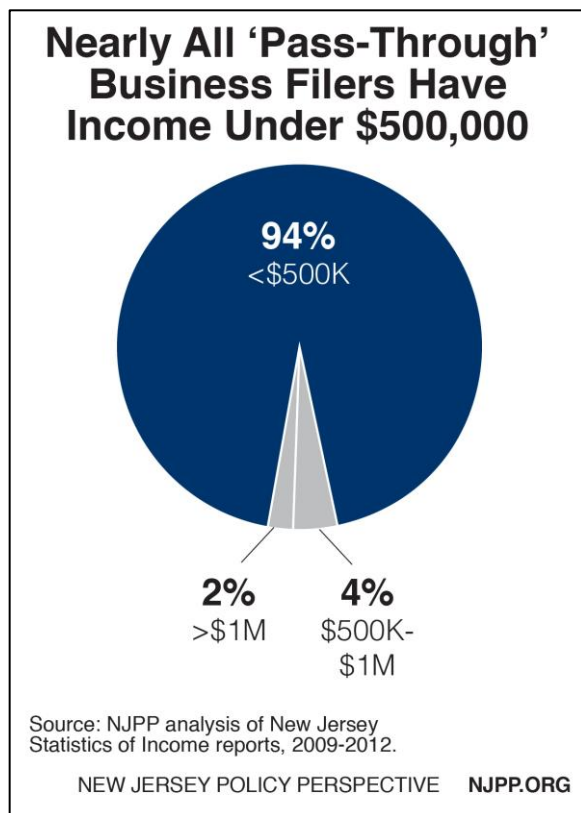
But most small businesses don’t make nearly enough money to fall into upper income brackets. Nationwide, only 13 percent of small businesses have \$50,000 or more in taxable income in a given year. And pass-through profits from the ownership of small businesses with paid employees account for less than 4 percent of the income of households with incomes over \$100,000.<sup>2</sup>

The story in New Jersey is no different. Very few residents who use “pass-through” accounting to claim business income on their personal income taxes would pay more if personal income taxes were increased on income of \$500,000 or more.

The vast majority – 94 percent – of New Jerseyans that file this way have income under \$500,000, a review of income tax filings between 2009 and 2012 finds. Just 4 percent of those passing through business income on their personal income taxes reported earnings between \$500,000 and \$1 million. And just 2 percent reported earnings over \$1 million.

In fact, there are as many businesses that file this way – 6 percent – that have incomes from \$0 to \$5,000 as have incomes over \$500,000.<sup>3</sup>

When looking only at S-corporation filers, whom have been the focus of New Jersey's business lobbyists, the story is not much different. Of those that filed income earned through a S-corporation, most (86 percent) earned less than \$500,000. Just 8 percent had income between \$500,000 and \$1 million and less than 6 percent reported income over \$1 million.



## Impact on Small Businesses Likely Even Less

In reality, a personal income tax increase on the wealthy would affect *even fewer* New Jersey small businesses than outlined above, since this does not represent *all* small businesses in the state. While most do file their business income through their personal returns, some small business owners file corporate tax returns.

And while the available New Jersey data do not break out which of these filers are actually in the position to grow and create new jobs, many personal income taxpayers with “small business” income are not your typical Main Street small business owners, but those with ownership interests who receive only a portion of their total income from business investments. Small businesses that actually create jobs – those with employees other than the owner or owners – make up just 2.7 percent of all personal income taxpayers nationwide.<sup>4</sup>

## Making Tax System Fairer & Investing in Public Services Would Help Small Businesses

Increasing the share of taxes paid by the state's most well-off would also make the tax system fairer for all of New Jersey. Right now low-income and middle-class New Jerseyans pay greater shares of their incomes in state and local taxes than wealthy residents.<sup>5</sup> That burden on families

struggling the most translates to less money being spent in the local economy, which in turn hurts small businesses.

Beyond fairness, there's another reason a more equitable tax system would benefit New Jersey's small businesses. The more income that goes to the wealthy (and the lower a state's tax rate on the wealthy), the slower a state's revenue grows over time.<sup>6</sup> This means less revenue to pay for essential public services that help small businesses thrive, like schools, public safety and reliable roads and bridges.

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## Endnotes

<sup>1</sup> New Jersey Business and Industry Association, *Video: Why a Millionaire's Tax is Actually a Tax on Small Business*, June 2015. <https://www.youtube.com/watch?v=nCxSsgIYu5I&feature=youtu.be>

<sup>2</sup> Center on Budget and Policy Priorities, *Cutting State Personal Income Taxes Won't Help Small Businesses Create Jobs and May Harm State Economies*, February 2013.

<http://www.cbpp.org/research/cutting-state-personal-income-taxes-wont-help-small-businesses-create-jobs-and-may-harm>

<sup>3</sup> NJPP analysis of New Jersey Treasury Department, *New Jersey Statistics of Income, 2009-2012*. We averaged those four years, and looked specifically at income reported as Net Profits from Business, Distributive Share of Partnership Income, S-Corporation Income and Rental Income.

<sup>4</sup> Ibid 2

<sup>5</sup> Institute on Taxation and Economic Policy, *Who Pays?, A Distributional Analysis of the Tax Systems in All Fifty States*, January 2015. <http://www.itep.org/whopays/>

<sup>6</sup> Ibid 5