



Tax Breaks for Hedge Funds Do Not Help Small Businesses

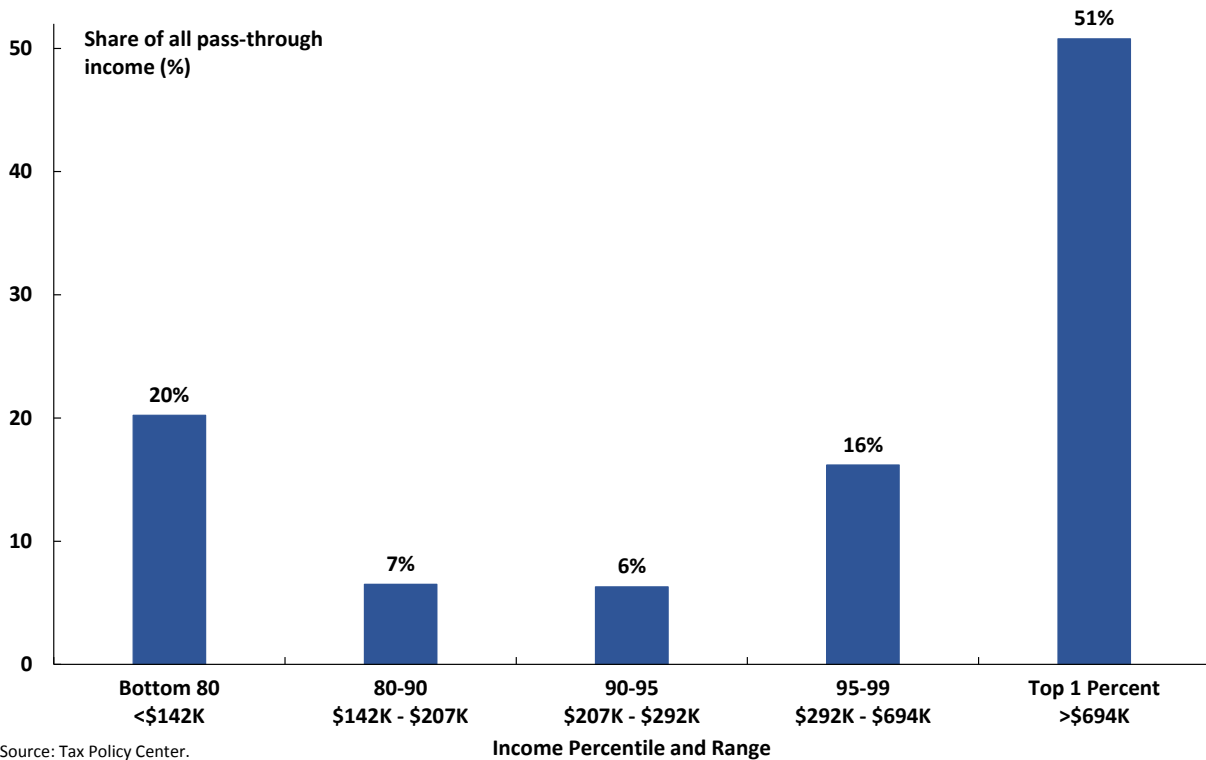
Despite insisting that tax reform would focus on working families and small business tax relief, yesterday President Trump and Congressional Republicans released a tax plan that slashes taxes for “pass-through” income earned by the wealthiest Americans. Pass-through income is business income filed through an individual tax return.¹ Cutting taxes for well-paid pass-through owners would do little to support Main Street entrepreneurship and would only force working Americans to shoulder more of the tax burden. Republicans should work with Democrats to craft a tax plan that helps small businesses grow in every corner of the nation, rather than finding backdoors to give sweetheart tax deals to Trump and big businesses that game the system.

Fails to adequately target tax relief to small businesses. Pass-through businesses include hedge funds, real estate developers, and large law firms. President Trump himself owns about 500 pass-through businesses.² More than half of pass-through income goes to the top 1 percent, while less than 10 percent goes to those earning in the bottom 40 percent of incomes.³ When Kansas passed a similar proposal in 2012, there were steep declines in job growth, small business formation, and tax revenues.⁴

Targets tax cut to the top 1 percent. A 25 percent pass-through rate would overwhelmingly benefit the wealthiest Americans who own large pass-throughs: 79 percent of benefits would flow to millionaires.⁵ In fact, the 400 richest households in America would see an average tax cut of \$5.5 million.

Promotes greater tax avoidance by the wealthy. Reducing tax rates for hedge fund managers, lawyers, and bankers will incentivize “income shifting” that further erodes our tax base.⁶ Many in the top 1 percent will simply reclassify their salaries as pass-through income to pay less in taxes, leading to billions in lost federal revenue.⁷ Large-scale tax avoidance by big corporations will leave real small businesses, along with working families, shouldering more of the tax responsibility for paying for our nation’s public goods and services.

Top 1 Percent Receive Majority of Pass-Through Income



Source: Tax Policy Center.

Note: Income brackets are based on Tax Policy Center's expanded cash income percentiles. Share of income for each bracket is share of total pass-through net income and losses. Data is for 2016. The breaks for the income percentiles are (in 2016 dollars): 80% \$142,200; 90% \$206,800; 95% \$291,700; 99% \$693,500.

¹ <https://www.cbpp.org/blog/despite-presidents-promise-emerging-details-point-to-large-tax-cut-for-wealthiest>

² <https://www.cbpp.org/research/federal-tax/pass-through-tax-break-would-benefit-the-wealthiest-and-encourage-tax-avoidance>

³ <http://www.taxpolicycenter.org/taxvox/who-would-benefit-tax-cut-partnerships-and-other-pass-throughs>;
<http://www.taxpolicycenter.org/taxvox/who-owns-pass-through-businesses-and-who-would-benefit-trumps-plan-cut-their-taxes>

⁴ <https://www.cbpp.org/research/federal-tax/pass-through-tax-break-would-benefit-the-wealthiest-and-encourage-tax-avoidance>

⁵ <https://www.cbpp.org/blog/despite-presidents-promise-emerging-details-point-to-large-tax-cut-for-wealthiest>

⁶ <https://www.urban.org/research/publication/options-reduce-taxation-pass-through-income>

⁷ <https://www.cbpp.org/research/federal-tax/pass-through-tax-break-would-benefit-the-wealthiest-and-encourage-tax-avoidance>