



Embargoed Until 10am
July 17, 2012

Contact: Sara Skubikowski
Phone: (202)466-8700

New Study Shows Higher Tax Rates Yield Fewer Jobs, Lower Wages

500,000 S Corporation Owners Targeted for Tax Hike

(Washington, D.C.) The S Corporation Association today released a study from top accounting firm Ernst & Young that makes clear that failing to extend the current top rates on individual, business, and investment income is detrimental for jobs and investment.

According to the study, raising top tax rates would result in a smaller economy, fewer jobs, less investment, and lower wages. The study finds that, over time, the economy would shrink by 1.3 percent with nearly three quarters of a million fewer jobs. S corporations in particular would be harmed. The study found that more than 72 percent of S corporation income is earned by the 500,000 S corporation owners who pay the top two rates.

Authored by Dr. Robert Carroll and Gerald Prante, the new study estimates the effects of the policy advocated by President Obama and some members of Congress to allow the top tax rates paid by business owners to rise sharply starting January 1 of next year. The study also measures the number of business owners and amount of business income targeted by the higher tax rates.

“Under the Administration’s proposed tax hike, Americans would see fewer jobs and lower wages,” observed Brian Reardon, Executive Director of the S Corporation Association. “The Administration’s goal is to tax the rich, but the result of their policies will be to stifle job creation and reduce wages -- that hurts everyone.”

Specifically, the study looked at the effects of allowing the top rates on individual and pass-through income, capital gains, and dividends rise to their pre-2001 levels together with the addition of the new 3.8 percent tax on investment income. The study emphasizes that this policy would raise the top tax rate on S corporation and other pass-through income from 35 percent to nearly 45 percent.

The Carroll and Prante study found 2.1 million business owners with incomes high enough to be subject to the increased rates. Like the Joint Committee on Taxation, the authors found that nearly one million business owners would be subject to the top two rates beginning in 2013. They also found that another 1.2 million business owners have incomes high enough to pay the top two tax rates, but they are subject to Alternative Minimum Tax (AMT) rather than the regular tax code. Those AMT-paying business owners also face higher tax rates next year, however, as they are subject to the new 3.8 percent investment tax created under health care reform.

###

About S-CORP

The S Corporation Association (S-CORP) is the only organization in Washington D.C. exclusively devoted to promoting and protecting the interests of America's 4.5 million S corporations. S-CORP was founded in 1996.