



MYTH and **FACTS** about Small Businesses, the Top 1% Proposal, and **PASS-THROUGH INCOME**

MYTH: The Revenue for Rhode Islanders proposal to enact a 3% tax on income above the Top 1% cut-off is “aimed directly at small ‘mom and pop’ businesses that pay taxes as a pass-through entity” (Greater Providence Chamber of Commerce).

FACTS:

While more than half of Top 1% filers claim some amount of pass-through income on their tax returns, **approximately 90% of all filers claiming pass-through income are not in the Top 1% and will not pay a penny more.**

For the approximately 10% in the Top 1%, **pass-through income accounts for only about 20% of their total income**, which contains even more in capital gains, which are taxed at a lower rate than wage income at the federal level.

Most of the approximately 10% in the Top 1% are not “small ‘mom and pop’ businesses.” These pass-through filers include:

- Self-employed professionals, including consultants
- Passive investors not involved in running a business
- Filers with vacation rentals or other properties producing revenue
- People with income from trusts

Many **pass-through businesses can take 20% of pass-through income off the top as tax exempt on their federal tax filings**; some pass-through filers receive tax credits through Rhode Island economic development tax credit incentive programs.

Rhode Island’s SALT deduction cap work-around means that **pass-through filers are not subject to the \$40,000 SALT cap** applying to filers without pass-through income.

Business expenses are generally deductible and therefore exempt from taxation. This applies to profits that business owners reinvest in their businesses in the same tax year. And this means you should question any claims that this 3% tax would reduce business expansion and reinvestment. Anyone claiming this would also be holding profits over for one or more years and paying much greater federal and current state taxes on the amount.

There is no good evidence that business owners use money saved through PTE filing to pay more to non-owner employees or hire more employees or expand their businesses. That is, **trickle-down economics does not work in the real world.**