

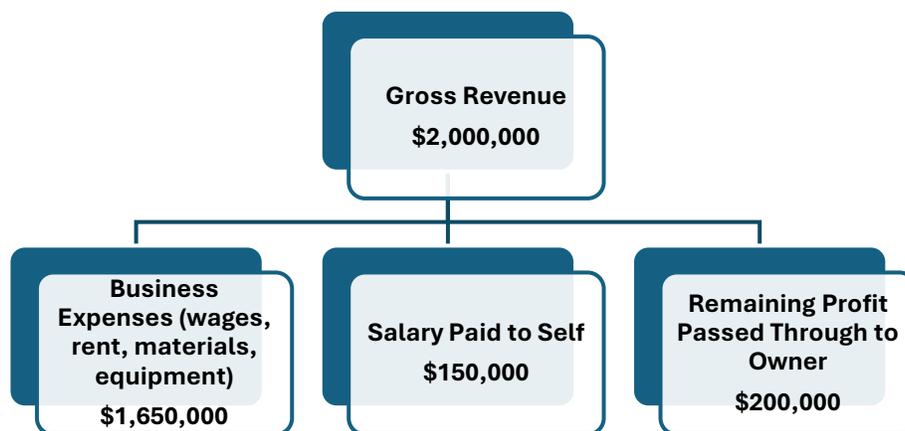


## QUESTION: Would a Top 1% or Millionaires Tax Impact Sally and Sam, Owners of Mom & Pop Shop on State House Lane in Providence?

Sally is a Rhode Island small business owner with \$2 million in Gross Revenue, the amount she takes in before spending anything on running her business. Her husband, Sam, helps with the business but also has a full-time job as a lawyer earning \$300,000 a year, and they have two school-age children. Sally's Mom & Pop Shop is registered as an S-Corp and is a Pass-Through Entity (PTE).

Most of the \$2 million in Gross Revenue is Operating Income, meaning that she spends it to pay her employees, to cover her rent, and purchase various supplies and equipment. Operating Income does not include taxes she owes, and even though it's called "income", it's *not* taxable. None of these expenses are taxed at all if she pays for them in the same year she takes in the Gross Revenue.

Let's take a look at the numbers and figure out if a new tax on high-income tax filers could possibly affect Sally and her family!



Neither the business nor Sally pay any taxes on the \$1,650,000 in business expenses.

Sally could pass through the entire \$200,000 in profits to her personal income taxes, but she will save \$3,000 in federal taxes by electing to take the PTE option. This means her business will pay the taxes on the \$200,000 and then pass through to her a credit for those paid taxes for her personal income tax return.



She also gets to take advantage of the 20% Qualified Business Income (QBI) deduction, a benefit unavailable for regular salary or wages.

<b>Profit</b>	<b>\$200,000</b>
<b>5.99% PTE Tax paid by the business entity</b>	<b>-\$11,980</b>
<b>Federal Pass-Through Income</b>	<b>\$188,020</b>
<b>Federal W-2 Income for Sally</b>	<b>\$150,000</b>
<b>Federal W-2 Income for Sam</b>	<b>\$300,000</b>
<b>Total Federal Income</b>	<b>\$638,020</b>
<b>Standard Deduction</b>	<b>-\$29,000</b>
<b>20% QBI Deduction</b>	<b>-\$37,604</b>
<b>Federal Taxable Income</b>	<b>\$571,400</b>
<b>Total Federal Personal Income Taxes</b>	<b>\$158,000</b>
<b>State Income (Salary + Business Profit)</b>	<b>\$650,000</b>
<b>Standard Deduction &amp; Exemptions</b>	<b>-\$35,000</b>
<b>RI Taxable Income</b>	<b>\$615,000</b>
<b>Total RI Personal Income Tax Owed</b>	<b>\$33,200</b>
<b>PTE Credit from taxes paid by business entity</b>	<b>-\$11,980</b>
<b>RI Personal Income Tax Paid after PTE Credit</b>	<b>\$21,220</b>
<b>Total Federal and State Taxes Paid</b>	<b>\$179,220</b>
<b>Additional owed w/millionaires tax</b>	<b>\$0</b>
<b>Additional owed w/Top 1% tax with \$640,000 taxable income cutoff</b>	<b>\$0</b>

Sally and Sam would not come close to having to pay any additional taxes if Rhode Island institutes either a millionaires tax or a Top 1% tax. Neither would the vast majority of Rhode Island's 100,000 or so small business owners. Approximately 90% of Rhode Islanders claiming *any* pass-through income **are not in the Top 1%**. And the 10% who do are mostly *not* your typical mom & pop business owners. Revenue from a Top 1% surtax would help Rhode Island's small business owners because of the additional investments in public transit, education, child care, and job training such revenue will make possible.

**ANSWER: Sally and Sam, Owners of Mom & Pop Shop on State House Lane in Providence would pay NOTHING ADDITIONAL under either a Top 1% or Millionaires Tax.**

