Congress of the United States
JOINT COMMITTEE ON TAXATION
Washington, DC 20515-6453

JUN 18 2012

MEMORANDUM

TO: Mark Prater, Jim Lyons, and Aaron Taylor

FROM: Thomas A. Barthold T.A.B.

SUBJECT: Revenue Estimates

This memorandum is in response to your request dated February 24, 2012, for information related to the tax rates on net positive business income under the President's budget proposal.

The President's Fiscal Year 2013 budget proposal would extend certain provisions of the "Economic Growth and Tax Relief Reconciliation Act of 2001 ('EGTRRA')," the "Jobs and Growth Tax Relief Reconciliation Act of 2003 ('JGTRRA')," and the "American Recovery and Relief Act of 2009 ('ARRA')." However, the marginal income tax rates, capital gains rates, tax rates on dividend income, and the elimination of the overall limitation on itemized deductions and personal exemption phase-out would be extended only for adjusted gross income ("AGI") under $200,000 ($250,000 for married individuals filing a joint return.) For purposes of the proposal, the $200,000 ($250,000) threshold would be indexed for inflation from 2009.

The staff of the Joint Committee on Taxation estimates that in 2013 approximately 940,000 taxpayers with net positive business income (3.5 percent of all taxpayers with net positive business income) will have marginal rates of 36 or 39.6 percent under the President's proposal, and that 53 percent of the approximately $1.3 trillion of aggregate net positive business income will be reported on returns that have a marginal rate of 36 or 39.6 percent.

For purposes of this analysis, business income consists of income from sole proprietorships (Schedule C); income from rental real estate, royalties, partnerships, subchapter S corporations, estates and trusts, and real estate mortgage investment conduits (Schedule E); and farm income (Schedule F). Not counted as "business income" is income from interest, dividends, or capital gains that may flow through certain pass-through entities but is reported elsewhere on an individual's return. This analysis excludes taxpayers subject to the AMT.