

Share of tax increases on high-income taxpayers attributable to the pass-through income of pass-through business owners

Tax increases on high-income taxpayers (10-year estimates)	Individual tax increase (\$B)	Pass-through business income (\$B)	Share (%)
Application of net investment income tax to trade or business income of certain high-income individuals	\$252	\$252	100%
Limitations on excess business losses of noncorporate taxpayers made permanent, with carryforward modification	\$160	\$160	100%
Surcharge on high income individuals, estates, and trusts	\$228	\$106	47%
Total tax increases	\$640	\$518	81%

Note: The three provisions that increase taxes on high-income taxpayers are included in Part 2, Subtitle H of the Build Back Better package. The EY Individual Tax Simulation Model is used to allocate the 5% and 3% surtaxes on high-income taxpayers to pass-through income (assuming such income is earned last). The estimates include the impact of the surtaxes on income from sole proprietorships, farm proprietorships, S corporations, and partnerships. Additional taxes on estate and trust income are also included to the extent reasonably attributable to pass-through business activity. Tax increases on the wages paid to S corporation shareholders/owners are not reflected.

Source: Joint Committee on Taxation, "Estimated Budget Effects of the Revenue Provisions of Title VIII - Committee on Ways and Means, of H.R. 5376, The "Build Back Better Act," as passed by the House of Representatives," JCX-46-21, November 19, 2021; Internal Revenue Service Statistics of Income; and EY Analysis.

Technical Appendix. Share of tax increases on high-income taxpayers attributable to the pass-through income of pass-through business owners

This analysis considers the extent the revenue raised from the three tax increases on high-income taxpayers included in Part 2, Subtitle H of the Build Back Better plan can be attributed to the pass-through income of pass-through business owners. The estimated revenue impacts for each of the three provisions are from the Joint Committee on Taxation's (JCT) November 19, 2021, revenue table for the Build Back Better (BBB) plan.¹

Three provisions analyzed include:

1. Application of the 3.8% net investment income tax to trade or business income of certain high-income taxpayers,
2. Making permanent the limitations on excess business losses of non-corporate taxpayers, with carryforward modification, and
3. The 5% and 3% surtaxes on high-income individuals, estates, and trusts.

The revenue raised from the first two of these provisions can be entirely attributable to the pass-through business sector. The EY Individual Tax Microsimulation Model is used to estimate the extent to which the high-income surtaxes would be paid by pass-through business owners on their pass-through income. The analysis finds that approximately \$106 billion (47 percent) of the \$228 billion in revenue from the surtaxes over the 10-year budget window can be attributed to pass-through income (assuming pass-through income is earned last). This estimate includes the impact of the surtaxes on the income from sole proprietorships, farm proprietorships, S corporations, and partnerships. Higher taxes on estate and trust income are also included to the extent reasonably attributable to pass-through business activity.

Roughly 95% of those taxpayers paying higher taxes under the surtaxes receive at least some pass-through-type business income. Roughly 30% of impacted pass-through taxpayers receive more than 30% of their income from pass-through businesses. This analysis does not account for the additional taxes that might be paid on S corporation wages received by owners of S corporations.

¹ Joint Committee on Taxation, "Estimated Budget Effects of the Revenue Provisions of Title VIII - Committee on Ways and Means, of H.R. 5376, The "Build Back Better Act," as passed by the House of Representatives," JCX-46-21, November 19, 2021.