Raising the Top Tax Rate Is a Tax Increase on Small Businesses

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Congress reduced the top individual income tax rate from 39.6 percent to 37 percent in the Tax Cut and Jobs Act of 2017 (TCJA). If Congress fails to extend TCJA, that top rate comes back for tax year 2026 (or after December 31, 2025).

Some have proposed increasing the tax rate on incomes above $1 million. Such a move would actually be a tax increase on pass-through businesses. Indeed, a third of all income above $1 million in adjusted gross income is business income, as the table below shows.[1]

The table also shows the total number of returns containing a sole proprietorship, a subchapter S corporation, a partnership, and a farming business. These all were considered pass through businesses in tax year 2022.[2]

[1] Internal Revenue Service, Statistics of Income, "Sources of Income, Adjustments, and Tax Items, by Size of Adjusted Gross Income, Tax Year 2022"
2 A pass through business is a business whose owners pay their taxes through the individual income tax form.

Tax Returns with Small Business Income		
	Adjusted Gross Income	
High Income Returns	$1,000,000 and Above	Over $2,500,000
All Returns		
Total Number of Returns	861,168	283,023
Total Pass Through Business Income	$896,905,359	$636,023,367
Total Income from all Sources	$2,742,076,451	$1,949,699,984
Percent Business Income	32.7%	32.6%
Returns with Taxable Business Income:		
Sole Proprietorships		
Total Returns	169,030	53,345
Percent of All Returns	19.6%	18.8%
Total Sole Proprietor Income	$60,694,154	$32,586,909
Partnerships		
Total Returns	324,678	123,419
Percent of All Returns	37.7%	43.6%
Total Partnership Income	$316,574,998	$223,033,824
Subchapter S Corporations		
Total Returns	293,048	109,158
Percent of All Returns	34.0%	38.6%
Total S Corp Income	$518,290,498	$379,818,262
Farming Businesses		
Total Returns	6,537	2,255
Percent of All Returns	0.8%	0.8%
Total Farm Income	$1,345,709	$584,372