Three Cheers for Passthrough Taxation

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Treasury Secretary Timothy Geithner recently suggested that some sort of entity-level tax should be imposed on subchapter S corporations and tax partnerships.1 Others expressed support for that proposal at a House Ways and Means Committee hearing held on March 3.2 Senate Finance Committee Chair Max Baucus, D-Mont., added that passthroughs may have “to be treated as corporations if they earn above a certain income.”3 Geithner and others appear to support revenue-neutral business tax reform.4 They suggest that revenue neutrality applies across business income generally, not just to corporate income.5 That is code-speak for shifting the burden of the business tax from corporations to mom and pop businesses by imposing a business tax on tax partnerships and S corporations.6 That proposal reflects a trend in the current political environment to broaden the tax base to include more middle-class income and less income of the super-rich.

A business tax on passthrough entities is wrong from a fairness perspective, and it fails on technical grounds. I hope the proposal gains no momentum, and I offer three cheers for passthrough taxation: (1) passthrough taxation conforms to entities that adopt traditional partnership attributes and to simple closely held corporations; (2) passthrough taxation promotes horizontal equity; and (3) passthrough taxation helps distribute the burden of


2Not all witnesses expressed support for expanding the scope of the entity-level tax. See testimony by Robert Carroll, Doc 2011-4494, 2011 TNT 43-50 (identifying unintended side effects that could result from corporate tax reform); Donald B. Marron, Doc 2011-4493, 2011 TNT 43-49 (claiming tax law favors passthrough entities); Dennis Tarnay, Doc 2011-4496, 2011 TNT 43-51 (voicing support for pass through entities); and Patricia A. Thompson, Doc 2011-4497, 2011 TNT 43-52 (recognizing the different treatment afforded different entity types).


4See, e.g., Marron testimony, supra note 2.

5See Donmoyer, supra note 1.

6See Marron testimony, supra note 2: Such revenue-neutral reforms could increase the tax burden on pass throughs, since they would lose the tax preferences, but not benefit from the rate reduction. On the other hand, such reforms would reduce the tax burden on corporations, since the benefit of the rate reduction would be larger than the loss of corporate tax preferences. Such changes raise important questions about the distribution of the tax burden among different types of businesses. One potential benefit of such reform is that it would reduce the disparity in tax treatment between pass throughs and C corporations.
taxation more fairly, whereas an expanded entity-level tax would shift more tax burden from the wealthy to middle-income taxpayers.

Cheer One: Technical Legitimacy

Partnerships have been around since the dawn of private enterprise, and nothing short of ending private enterprise could eliminate them. Business and property owners will always combine resources and allocate the profits and losses from those resources in infinite variations. For example, regardless of tax laws, individuals will combine resources to open restaurants, provide lawn care, distribute beauty products and services, perform professional services, prepare and serve food, manufacture and sell widgets, and do much more. The variations of profit- and loss-sharing arrangements in these myriad undertakings will be diverse. Tax law should not impede those endeavors. A one-size-fits-all approach will never work for those arrangements, and attempting to control the manner in which parties combine resources and share profits will stifle ingenuity and ultimately fall victim to the human entrepreneurial spirit.

Partnership taxation (unlike entity-level taxation) considers the partners’ freedom of contract and balances that freedom with administrative aspects of taxing the income from those arrangements. Tax law’s challenge is to ensure that income from partnerships’ property and services is taxed appropriately. General tax principles cannot determine the source of income in many partnerships, so partnerships cannot simply trace the income from its source to a single owner of the source. For example, a partnership that combines contributed property and services has income from both resources. The partners often cannot determine the extent to which income derives from each resource, so they need rules governing the allocation of the income. The allocation rules of partnership taxation address the problem that arises from the inability to trace. The allocation rules encourage partners to allocate tax items the same way they allocate economic items. Partnership taxation is attuned to the nature of most partnerships.

Contrast partnerships with corporations, which do not exist naturally in business. Corporations are a fiction created by the state. While the state may be unable to stop the formation of partnerships, it can stop the formation of corporations. The state can also control the ownership and capital structure of corporations. Passthrough taxation is difficult to apply to many corporations because they do not allocate specific items of profit and loss to specific shareholders. Instead, shareholders often have a transferable interest in the corporation and a right to its residual assets. The residual right depends on the liquidation preference of the shares. The liquidation preferences could vary depending on the class or type of stock a shareholder owns. The lack of allocations to specific shareholders and the method for determining shareholders’ residual rights make passthrough taxation untenable for many corporations. Consequently, corporations must be subject to an entity-level tax.

Despite the need for an entity-level tax, shareholders often are subject to tax on corporate distributions. The government and commentators generally agree that taxing distributions from corporations is inappropriate because doing so taxes the corporate income twice. There are, however, potential ways to alleviate the problems raised by entity taxation. To the extent double tax is a concern, lawmakers should focus on eliminating it, but taxing passthrough entities like corporations will not help alleviate the problems corporations face.

History reveals the importance of passthrough taxation for S corporations. At the turn of the 20th century, a one-size-fits-all approach would not work for those arrangements, and attempting to control the manner in which parties combine resources and share profits will stifle ingenuity and ultimately fall victim to the human entrepreneurial spirit.


See reg. section 1.704-1(b)(2)(ii)(a). The allocation rules are not without their defects, however. See infra text accompanying note 22.


13See section 301.


15See Treasury report, supra note 14; Fred W. Peel, “A Proposal for Eliminating Double Taxation of Corporate Dividends,” 39 Tax Law. 1 (1985); Edward D. Kleinbard, “Rehabilitating the Business Income Tax,” Tax Notes, June 18, 2007, p. 1213, Doc 2007-14028, or 2007 TNT 114-42. Perhaps those proposals could apply to passthrough entities, but the suitability of the current regimes to most passthrough entities makes any changes unattractive. Those proposed corporate tax fixes should apply to entities that are not suited to passthrough taxation.
century, business owners had a choice between corporations and partnerships. Generally speaking, corporations were formal and cumbersome — the province of large business enterprises. Partnerships were easy to form and less formal — the province of closely held, smaller businesses. The federal government imposed a tax on corporations but not on partnerships. With the passage of time, small business owners were attracted to corporations because they provided limited liability. Those corporations were often owned by family members or a few close associates, and they had simple ownership structures. In many respects, however, those small corporations were like their partnership counterparts. Nonetheless, they were subject to an entity-level tax.

Congress recognized the inequity of taxing small, simple corporations like large, complex corporations and differently from small partnerships. To eliminate that inequity, Congress enacted Subchapter S passthrough taxation. Subchapter S applies to simple corporations with a single class of stock. That single class of stock provides shareholders an economic interest in the corporation equal to their proportionate ownership interests in the corporation. As a consequence, the owners know their respective shares of the corporation’s profits and losses, and the corporation can accurately pass those items through to the shareholders. Tax law can therefore tax the shareholders on their respective interests in those profits and losses without taxing the corporation.

The various tax regimes derive from the traditional view of partnerships and corporations, but the world today is much more complicated than it was just a few decades ago. Now business owners have a smorgasbord of legal entities from which to choose. The formal, complicated corporation and familiar, simple partnership still exist. But limited liability companies and other forms of state law partnerships now allow business owners to structure business arrangements with any variation of traditional corporate and partnership attributes irrespective of legal form. For the most part, tax law should not be too concerned with many of the various attributes of legal entities. It must chiefly concern itself with the economic arrangement, as expressed by the members’ legal rights and obligations to the entity. Accordingly, tax law now ignores many attributes of legal entities and allows business owners to select their form of business arrangement.

One consequence of ignoring the attributes of legal entities is that some partnerships now have ownership and capital structures that resemble traditional corporations. For example, partnerships with target allocations have capital structures that closely resemble those of a corporation with multiple classes of stock. Determining each member’s share of such an entity’s profits and losses can be difficult — perhaps impossible — but the law allows those entities to use the partnership passthrough regime. That appears to be inappropriate. The cure for that inappropriate tax treatment is not to subject all business arrangements to an entity-level business tax; the cure is to repair the rules to prevent inappropriate entities from using the passthrough rules. Such a fix would require significant work and changes to the existing, embedded rules to limit the scope of passthrough taxation, but it would improve the law. Imposing an entity-level tax on all passthrough entities is not the proper fix.

Despite the appropriateness of a passthrough tax regime for partnerships, partnership tax law is not without its flaws. The allocation rules have become archaic. Commentators and practitioners have realized that the test for substantial economic effect is tax-centric, and allocations in accordance with partners’ interests in the partnership may provide opportunities to separate tax items from economic items. Those rules deserve attention and revision to help ensure that partners do not allocate tax items abusively. Subjecting partnerships to an entity-level tax will not, however, solve the problems in the current system. Solving them requires appropriately-focused efforts. Lawmakers should

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17 See Revenue Act of 1909, ch. 6, section 38, 36 Stat. 1112 (subjecting businesses “to pay annually a special excise tax with respect to carrying on or doing business by such corporation”).
19 See Borden, supra note 12.
20 See reg. section 301.7701-1, -2, and -3.
21 I acknowledge that a contingency of partnership tax experts disagree with my assertion regarding the allocation of tax items in partnerships with distribution-driven agreements; however, I have yet to see any accounting method that convinces me that those allocations are consistently possible.
22 See Borden, supra note 12.
focus on appropriate fixes, not broad-based application of an ill-fitting entity-tax regime.

**Cheer Two: Horizontal Equity**

Pleas for equality may enter the debate on the appropriate tax regime for partnerships. One argument is that owners of passthrough entities should be treated like the shareholders of C corporations who are subject to double taxation.\(^{24}\) That argument is appealing on its face because it claims that all business owners (owners of corporations and owners of partnerships) should be taxed similarly. Passthrough entities are not, however, similar to many C corporations. They often have many attributes that make them more similar to individuals. Thus, passthrough entities lie somewhere between individual business owners and C corporations, creating an equity tension (see figure above). An equity analysis must ask whether the law more appropriately should treat passthrough entities like individuals or like C corporations.

Lawmakers must identify the proper point of comparison when applying an equity analysis. Corporations are legal fictions; individuals are real. When considered from that perspective, the proper point of comparison appears obvious. The law should attempt to treat business owners the same way it treats individuals who earn income from wages or otherwise. The law cannot do that for some corporations because of their complex ownership and capital structures. As stated above, an entity-level tax is needed for those entities.

Corporate tax is a deviation from an ideal tax, and it should not become the baseline for taxing other business entities. Using it as a point of comparison would create a circular analysis that would ultimately compare individuals with corporate shareholders and alter individual income tax to match corporate tax. Such a result would be absurd. Comparing passthrough entities with corporations is one degree removed from that absurdity. The baseline taxpayer for comparison should be an individual in all equity analyses.

In fact, the equity analysis suggests that lawmakers should modify corporate tax. The law could mitigate the effect of the entity-level tax by not taxing dividends. Not taxing dividends would be a step closer to treating C corporations like individual business owners. The law does not, however, mitigate the problems of corporate tax by taxing members of passthrough entities in the same manner it taxes C corporations. An entity-level tax on passthrough entities would enhance inequity by treating owners of those entities even more differently from individual wage earners. Further, a tax on passthrough entities could create multiple layers of tax for joint ventures between corporations, which are often structured as tax partnerships. Equity analysis does not justify an entity-level tax on partnerships and S corporations. To the contrary, equity justifies passthrough taxation and calls for improvements to the corporate tax regime.

Equity analysis also raises concerns about opportunities for abuse in the passthrough regime. In particular, the passthrough regime may give some service providers the opportunity to convert ordinary income from services to capital gains.\(^{25}\) Imposing an entity-level tax on passthrough arrangements is not, however, the best way to curb that abuse. Tweaking the definition of tax partnership and examining the relationship service providers have with passthrough entities will more accurately remedy that problem.\(^{26}\) As discussed in the next section,

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\(^{24}\)See Marron testimony, *supra* note 2 (suggesting that a member of an LLC should be subject to the taxes imposed on a C corporation); and Thompson testimony, *supra* note 2 (recognizing that partnerships are treated differently from S corporations and C corporations). But see Carroll testimony, *supra* note 2 (recognizing that corporate tax distorts behavior).


adjusting tax rates also will help ensure that individuals who draw significant income from passthrough entities shoulder their fair share of the tax burden.

**Cheer Three: Fairness**

Geithner’s proposal is most troubling because a business or entity tax on partnerships and S corporations would shift a disproportionate share of the tax burden to middle-income taxpayers. Partnerships and S corporations are owned by a broad segment of the population. Most of the members of those entities fall squarely within the middle income brackets. A tax on passthrough entities would thus increase the burden of tax borne by the largest cross section of society. That group already bears an inequitable portion of the tax burden. Efforts to raise more revenue should place the burden more heavily on the wealthiest members of society. Because a tax on passthrough entities would do the opposite of that, the proposed entity-level tax is problematic.

Broadening the corporate tax base to include passthrough entities seems attractive because it could enhance revenue.27 Martin A. Sullivan illustrated that based on the number of partnerships formed over the last several years, the government could collect as much as $140 billion of additional tax revenues annually if passthrough entities were subject to entity-level tax. He qualified that number with caveats regarding assumptions he used.28 His analysis did not, however, consider the attributes of members of passthrough entities. As Sullivan acknowledged, the income of passthrough entities passes through to the members, who report the income on their individual returns and pay tax on those amounts. The amounts those members report provide some insight into the makeup of who would be affected by a tax on passthrough entities. Many of those individuals do not earn a significant amount of income from their businesses. A tax on

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27Lawmakers could also broaden the business tax base by eliminating tax expenditures such as accelerated depreciation and section 179 expensing, deferral of active foreign income, the domestic production activities deduction, the deduction for charitable contributions, and many others. See Carroll testimony, supra note 2.

passthrough entities would primarily be an additional tax on middle-income taxpayers, a tax that the government should not impose until it addresses the current distributional inequities in the system. A review of IRS Statistics of Income division data identifies the typical taxpayers who are members of passthrough entities.

Table 1 provides information about S corporations and their shareholders. The table places S corporations in categories based on the size of the corporation’s business receipts. The information in Table 1 confirms that most S corporations are very small businesses. The average number of shareholders per corporation is less than three for nearly 80 percent of S corporations. For the remaining largest 20 percent of those corporations, the average number of shareholders per corporation does not exceed six. Perhaps even more telling is the average amount of modified total net income (MTNI) S corporations earn per shareholder. Table 1 suggests that the average amount of MTNI per shareholder does not exceed $125,000 for all but a little more than 20 percent of all S corporation shareholders. The table also confirms that more than 65 percent of S corporation shareholders have MTNI of less than $45,000. This information suggests that most S corporation shareholders are not high-income individuals.

The information about tax partnerships in Table 2 similarly confirms that most partnerships are small. The information reveals that on average, members of tax partnerships earn relatively small amounts from their partnerships. The average amount of MTNI per partner is considerably lower than the average amount of MTNI per S corporation shareholder. For the largest partnerships, the average MTNI per partner is less than $100,000. The average MTNI per partner is less than $50,000 for almost 70 percent of partnerships.

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30This analysis uses data from 2007 because that is the most recent year for which complete data was available for all types of relevant entities and individuals.

31MTNI is the amount of an S corporation’s net income plus compensation paid to the officers of the corporation. MTNI assumes that the officers of most S corporations are also shareholders, so compensation paid to an officer would be an amount paid to a shareholder. The MTNI will help establish the shareholders’ income cohort.

32The MTNI for partnerships is the partnership’s total net income plus guarantee payments to partners. The MTNI per partner will help establish the partners’ income cohort.
percent of all partners. Notice that the average number of partners per partnership is considerably larger than the average number of shareholders per S corporation. The top 32 percent of the largest partnerships average at least 10 members, with the largest partnerships averaging 260 members. The smallest average number of partners per partnership (three) is greater than the average number of shareholders for 95 percent of S corporations. These numbers suggest that on average, partnerships have more partners than S corporations have shareholders, but most partners are not high-income individuals, and most partnerships are relatively small.33

To fully appreciate the normalcy of members of tax partnerships and S corporations, one should review the general income distribution of individuals. Table 3 reveals that 96 percent of individual tax returns report $133,000 or less in adjusted gross income. The average AGI per return is less than $50,000 for almost 65 percent of all returns. Those characteristics are similar to the income characteristics of partners and S corporation shareholders.

Comparing the information about S corporation shareholder income, partner income, and individual income reveals that on average, members of S corporations and partnerships are similar to the general population (see Table 4). Most members of those entities are middle-income taxpayers. Imposing a separate tax on partnerships and S corporations would shift the burden of taxation from corporations to middle America.

Although the information about S corporation shareholders and partners is less complete than that available for individuals, it is nonetheless enlightening. For example, notice in Table 4 that approximately the bottom 25 percent of all individual tax returns report about $17,000 of AGI, approximately

Large accounting firms (such as the Big Four firms) similarly account for a small percentage of the total partnerships.

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33 Undoubtedly, some high-income individuals are members of tax partnerships. The average MTNI for members of large service partnerships such as law and accounting firms would surely be greater than the average per partner MTNI for all partnerships. Further, members of hedge funds also would often be high-income individuals. The less-than-expected average for the largest partnerships suggest that those partnerships are a very small portion of the partnership population. Indeed, law firms that come within the largest 250 in the United States may have fewer than 45 partners (the largest law firm has almost 1,350 partners). See Internet Legal Research Group, “America’s Largest 250 Law Firms,” available at http://www.ilrg.com/nlj250/attorneys/desc/1. Those 250 law firms account for a small percentage of the 18,417 largest partnerships.

(footnote continued in next column.)

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Table 3. Individual Income Statistics, 2007

<table>
<thead>
<tr>
<th>Size of AGI</th>
<th>Number of Returns</th>
<th>Cumulative Percentage of Returns</th>
<th>AGI per Return</th>
<th>Cumulative Percentage of AGI</th>
</tr>
</thead>
<tbody>
<tr>
<td>No AGI</td>
<td>1,907,836</td>
<td>1.3%</td>
<td>-$58,000</td>
<td>0.4%</td>
</tr>
<tr>
<td>$1 under $5,000</td>
<td>11,930,752</td>
<td>8.3%</td>
<td>$3,000</td>
<td>1.4%</td>
</tr>
<tr>
<td>$5,000 under $10,000</td>
<td>12,114,741</td>
<td>16.8%</td>
<td>$7,000</td>
<td>3.1%</td>
</tr>
<tr>
<td>$10,000 under $15,000</td>
<td>11,914,564</td>
<td>25.2%</td>
<td>$12,000</td>
<td>5.3%</td>
</tr>
<tr>
<td>$15,000 under $20,000</td>
<td>11,061,903</td>
<td>32.9%</td>
<td>$17,000</td>
<td>7.9%</td>
</tr>
<tr>
<td>$20,000 under $25,000</td>
<td>9,963,693</td>
<td>39.9%</td>
<td>$22,000</td>
<td>10.8%</td>
</tr>
<tr>
<td>$25,000 under $30,000</td>
<td>9,005,338</td>
<td>46.2%</td>
<td>$27,000</td>
<td>16.7%</td>
</tr>
<tr>
<td>$30,000 under $40,000</td>
<td>14,740,806</td>
<td>56.5%</td>
<td>$35,000</td>
<td>22.4%</td>
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<td>$40,000 under $50,000</td>
<td>11,150,798</td>
<td>64.3%</td>
<td>$45,000</td>
<td>36.2%</td>
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<td>$50,000 under $75,000</td>
<td>19,450,744</td>
<td>77.9%</td>
<td>$61,000</td>
<td>47.9%</td>
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<td>$75,000 under $100,000</td>
<td>11,744,133</td>
<td>86.1%</td>
<td>$86,000</td>
<td>68.5%</td>
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<td>$100,000 under $200,000</td>
<td>13,457,877</td>
<td>95.5%</td>
<td>$133,000</td>
<td>80.1%</td>
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<td>$200,000 under $500,000</td>
<td>3,492,353</td>
<td>97.9%</td>
<td>$288,000</td>
<td>87.5%</td>
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<td>$500,000 under $1 million</td>
<td>651,049</td>
<td>98.4%</td>
<td>$678,000</td>
<td>88.9%</td>
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<td>$1 million under $1.5 million</td>
<td>166,363</td>
<td>98.5%</td>
<td>$1,207,000</td>
<td>92.6%</td>
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<td>$1.5 million under $2 million</td>
<td>70,733</td>
<td>98.6%</td>
<td>$1,722,000</td>
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<td>$2 million under $5 million</td>
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<td>$2,988,000</td>
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<td>$5 million under $10 million</td>
<td>28,090</td>
<td>98.7%</td>
<td>$6,847,000</td>
<td>99.9%</td>
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<tr>
<td>$10 million or more</td>
<td>18,394</td>
<td>98.7%*</td>
<td>$30,532,000</td>
<td>101.3%</td>
</tr>
</tbody>
</table>


*The difference between this total and 100 percent is the 1.3 percent attributable to the returns with no AGI.

**The 1.3% attributable to the returns with no AGI appears to cause the cumulative total to exceed 100 percent.
the bottom 25 percent of all S corporation shareholders have about $17,000 of MTNI, and approximately the bottom 25 percent of all partners have about $14,000 of MTNI. The MTNI of partners and S corporation shareholders in the lowest deciles appears to be greater than the income of individuals in the lowest decile. This merely suggests that the poorest members of society do not form S corporations, and if they form partnerships, they do not file partnership returns. The information about partnerships does not appear specific enough for the top percentiles. The eighth decile of each group is similar, but information for the ninth decile of partners and S corporation shareholders is incomplete. The statistics for those two groups do not break out information about the very top echelon of members in the same manner as the statistics on individual income do. Consequently, we do not know whether the wealthiest partners and S corporation shareholders are some of the wealthiest individuals. Otherwise, the correlations between individuals, corporations, and partnerships appear to be fairly strong.

The information in Table 4 confirms that the proposal to tax passthrough entities represents another case of the Obama administration neglecting the difficult task of broadening the tax base for the wealthiest taxpayers and taxing them at a higher rate. Instead, it proposes to increase the tax burden of already-stretched middle-income taxpayers. At some point, the administration should take a stand and make an effort to more fairly distribute the tax burden.

**Alternative Revenue-Generating Solution**

My intent is not merely to find fault with the proposal to tax passthrough entities. Broadening the tax base would allow the federal government to raise more revenue, and it should raise more revenue. It should not, however, try to increase tax revenue by increasing the burden on middle-income taxpayers. I offer an alternative solution for

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34 Two individuals may unknowingly form a partnership. For example, two individuals could form a partnership to shine shoes on a street corner. They may not realize that they have formed a partnership and fail to file a partnership return as a result. Forming an S corporation, however, requires the members to elect to have a partnership be taxed as an S corporation or to create a state law corporation and elect for it to be an S corporation. See section 1362(a); reg. section 301.7701-
3(c)(1)(v)(C). Requiring an affirmative action will often be sufficient to ensure that the low-income taxpayers do not inadvertently form such an entity.
raising the $140 billion that Sullivan claims the government loses by allowing passthrough taxation for tax partnerships and S corporations: I propose that the burden for the $140 billion of “lost” tax revenue be placed on the top 0.16 percent of the population.33 That group, which files approximately 155,000 tax returns, had about $1.079 trillion of AGI in 2007 (Table 5).

The government could raise $140 billion of additional tax revenue by simply raising the tax rate for that small portion of the population by 13 percentage points. Such an increase would require that individuals who report close to $3 million of AGI on average pay an additional $388,000 of tax on average; those who report about $6.8 million of AGI on average would be required to pay an additional $489,000 of tax on average; and those who report about $30.5 million of AGI on average would have to pay almost $4 million more in tax on average.

Perhaps an across-the-board rate increase for those 155,000 tax returns is unfair. Individuals who report $30.5 million of AGI on average arguably should pay tax at a higher rate than those who report only $3 million of AGI on average. Consequently, the change could require those who report $30.5 million to pay an additional 20 percentage points of tax. That increase would require them to pay an additional $6 million of tax on average. Those who report about $6.8 million of AGI could pay an additional 10 percentage points of tax. That increase would require them to pay an additional $685,000 of tax on average. To make up the remaining portion of the $140 billion of lost revenue, those who report about $3 million of AGI on average could pay an additional 3 percentage points of tax. Their increase would be about $90,000 of tax on average (Table 6). Even after the increases, each cohort of taxpayers would have more than sufficient means to meet their needs. Of course, there are numerous other ways to spread the burden of the tax to the wealthiest portion of the population.

### Conclusion

The proposal to subject passthrough entities to an entity-level tax is a bad one. An entity-level tax on those entities would disregard their economic attributes, be inequitable, and unduly burden middle-income taxpayers. The government faces serious budgetary problems and must raise more revenue. It cannot merely continue to look for ways to further burden those in the middle. It also should look to preserve and enhance the integrity of the various business tax regimes. Wholesale change will create inequity and not accomplish the minor fixes that each regime calls for. Before seeking more revenue from middle-income taxpayers, the government should raise the tax rate on the very wealthy and eliminate tax expenditures that are available primarily to that group of taxpayers. Only after it does those two things should it ask more of middle-income taxpayers.

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