

TAXING INCOME OF ENTREPRENEURS

January 13, 2017

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Conference: Are Entrepreneurs Over-taxed?



Taxation of Wealth Accrual of New Firms

<u>Development Stage</u>	Comprehensive Income Tax	Cash Flow Tax	Current Law
Entrepreneur labor contribution	Taxable at ordinary income rates	Tax deferred	Tax deferred
Build-up of Wealth	Taxable annually at ordinary income rates	Tax deferred	Tax deferred
Sale of Company	Not taxable	Taxable at ordinary income rates	Taxable at capital gains rates

Determinants of Total Tax Burden

	Taxation of Wealth Build-up	Taxation of Value of Ongoing Firm
Tax rate rises with:	<ul style="list-style-type: none">• Capital gains rate of owner	<ul style="list-style-type: none">• Effective tax rate on corporate income• Share of equity held by taxable investors• Tax rate on gains and dividends• Equity premium
Tax rate falls with:	<ul style="list-style-type: none">• Years to maturity• Discount rate	<ul style="list-style-type: none">• Marginal tax rate on interest income• Corporate bond rate

THANK YOU

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Are Entrepreneurs Thinking about Tax?

Susan C. Morse

Professor of Law, University of Texas School of Law

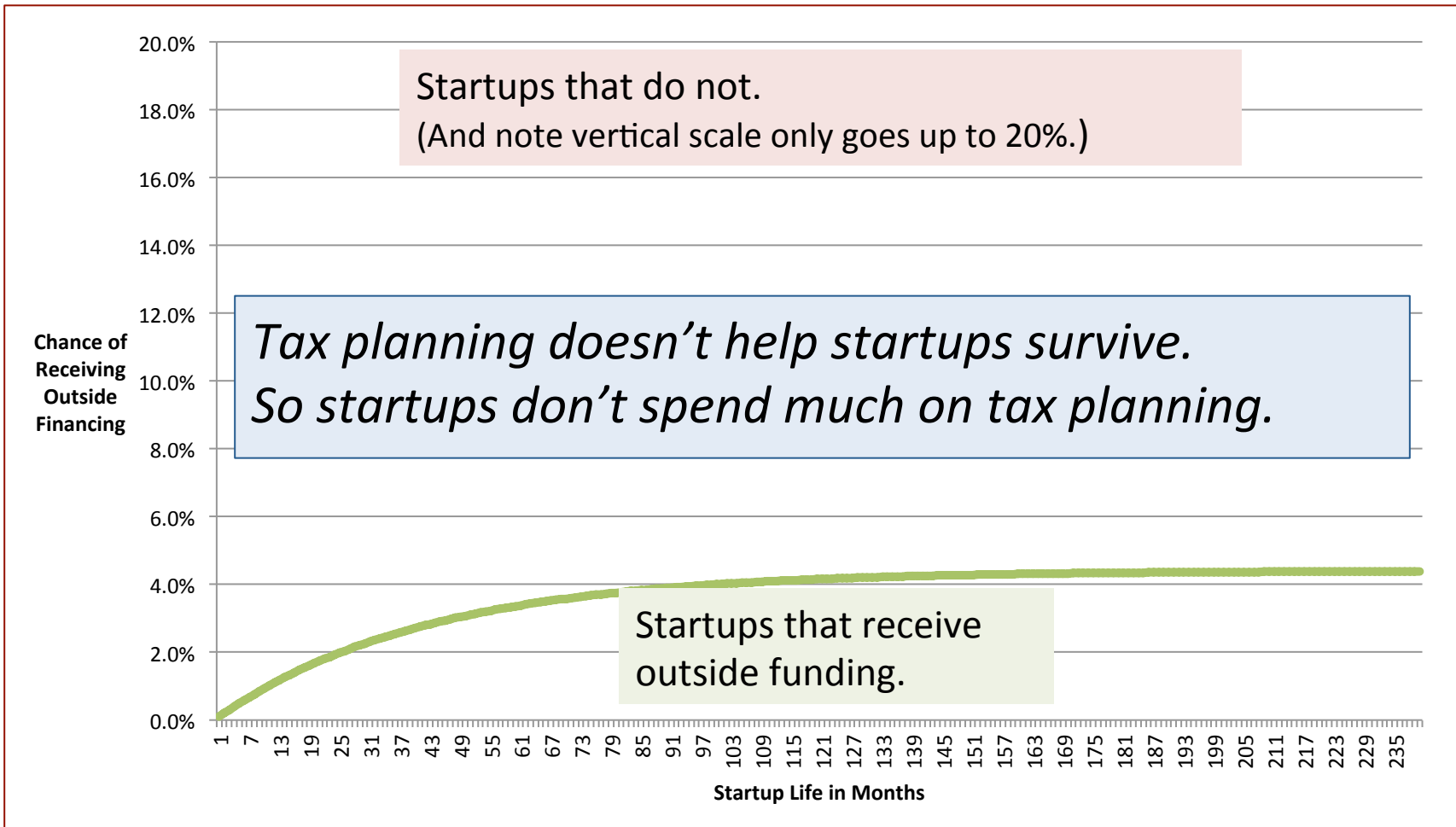
Prepared for Tax Policy Center Panel

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TEXASLAW

Startups are thinking about survival. (Not about tax.)



Sources: Time trend: SDC VentureXpert data on 21,843 firms that received venture financing 1990-2015. Overall chance of funding: Kauffman Foundation Survey (May 2010) (certain high-technology SIC codes). See Susan C. Morse & Eric J. Allen, Innovation and Taxation at Start-up Firms, 69 Tax L. Rev. 357 (2016).