

## Break Even Analysis for Individual Taxpayers

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Which businesses are going to come out with a smaller tax burden and which businesses will have a larger tax burden?

One approach is to look at this algebraically:

For the base case, assume

- a 15 mill tax rate,
- a 1/3 cut for relief,
- a 100,000 exemption for gross receipts and
- a .0075 gross receipts tax rate,
- all the property is real (so we can ignore the ignore the 20,000 exemption for simplicity sake – although it can easily be built into the equation – its just makes it longer)
- whatever the pass-through rate is for property tax, it is also the pass through rate for the BAT, in which case it will cancel out from both sides of the equation. In a later case, we can add in differing rates.

Whenever

$$15 \text{ mills} * 1/3 * (\text{Taxable Real Property}) = .0075 * (\text{Taxable Receipts}-100,000)$$

then a company will break by this reform. If the left hand side of the equation (i.e. the property tax relief) is larger the company comes out ahead. If the left hand side is the small of the two, smaller the company pays more tax under the reform.

Restate 1/3 of 15 mills as .005 and then multiple both side by 200 yielding:

$$(\text{Taxable Real Property}) = 1.5 * (\text{Taxable Receipts}-100,000)$$

In words, start with Taxable Receipts, subtract out the 100,000 exemption, and multiple it by one and a half. If the result is larger than Taxable Real Property, a company will pay more under the reform. If we look at a company that owns property and rents it out, that company will typically come out ahead because the cap rate, or the rent/value of the property, will usually look more like 10% than 66%.