



Tax Myths

Tax Myth

“The Wealthy do not Pay a Fair Share”

According to the IRS, for **2006** the following taxpayers paid this % of total Income Taxes:

<u>Top %</u>	<u>AGI Above</u>	<u>% of Taxes</u>
1%	\$388,806	39.89%
5%	\$153,542	60.14%
10%	\$108,904	70.79%

The Bottom 50% Paid **2.99%** of all Income Taxes

Tax Myth

“The Wealthy Received Disproportionate Tax Benefits from the 2001 Tax Law”

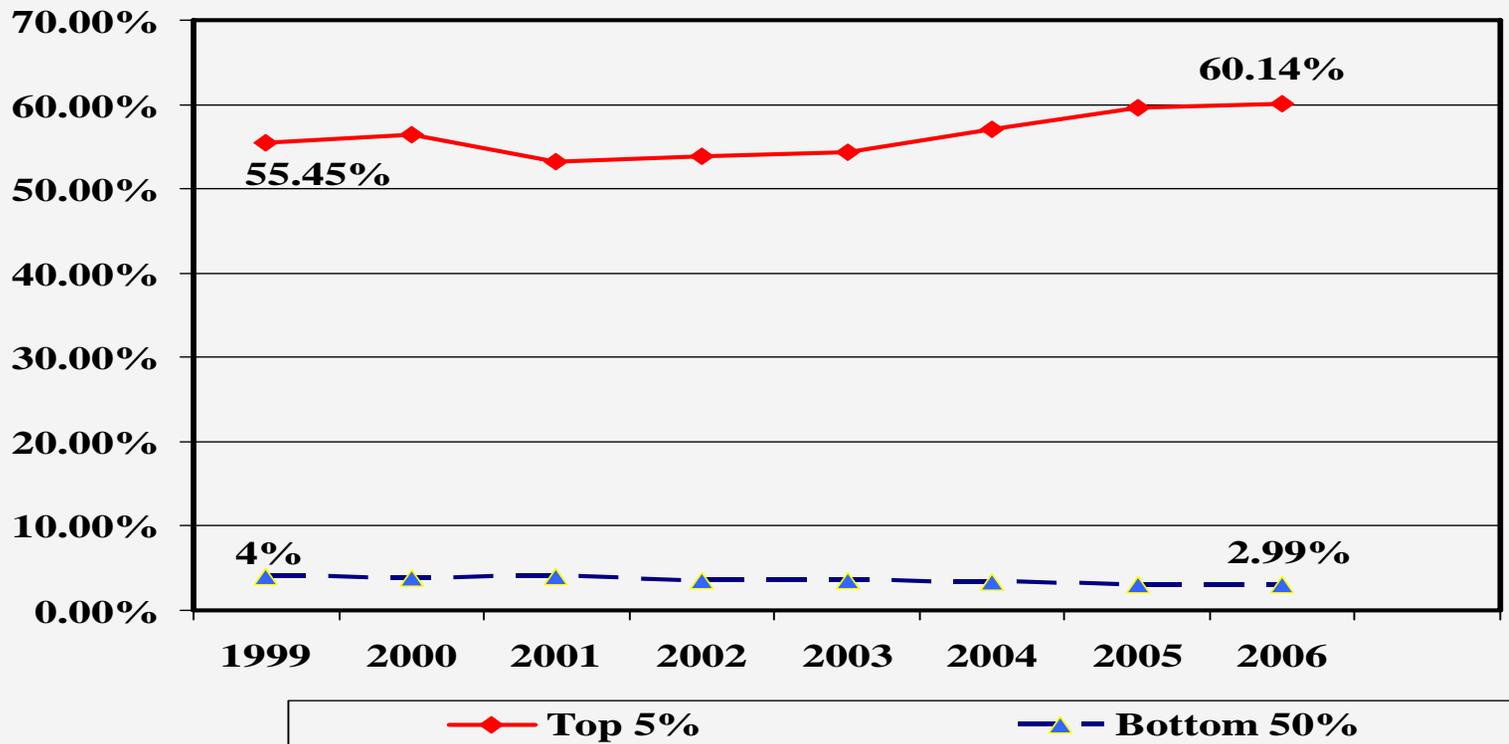


Table Shows % of Income Taxes Paid

MEMORABLE QUOTE

*A **democracy** cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves **largesse** from the public treasury. From that moment on, the majority always votes for the candidates promising the most benefits from the public treasury with the result that a democracy always collapses over loose fiscal policy, always followed by a dictatorship. The average age of the world's greatest civilizations has been 200 years.*

Alexander Fraser Tytler (1747-1813)

Tax Myth

“The Top Federal Rate is 35%”

The TOP Federal Income Tax Bracket is NOT Really **35%**

18 Code Sections have Phase-outs of Benefits for Higher Levels of Income

The TOP Effective Tax Rate is Probably Closer to

40-41%

Tax Myth

“The Top Federal Rate is 35%”

Phased Out Tax Benefits

Tax Credits

- ✓ Hope Scholarship
- ✓ Lifetime Learning
- ✓ Child Tax
- ✓ Adoption Expenses
- ✓ First Time Home Buyer
- ✓ Elderly & Disabled
- ✓ Earned Income

Tax Exemptions

- ✓ Personal Exemptions
- ✓ Dependent Exemptions
- ✓ AMT Exemption



Tax Deductions

- ✓ Education Costs
- ✓ Education Loan Interest
- ✓ Medical Costs
- ✓ Miscellaneous Itemized Deductions
- ✓ Itemized Deductions
- ✓ Charitable Contributions
- ✓ IRA Deduction

Tax Myth

“The Income Tax is “Unconstitutional”

The federal income tax was never properly adopted in 1913.

If you write *“Unconstitutional”* on the front of your return and send it to the IRS, they will never tax you again.

**Won't Work, but it is a nice way to gain
ATTENTION from the IRS!**

Tax Myth

“Only Incomes over \$250,000 will see a Higher Tax”

- **Cost of AMT Reform (\$800 billion to \$1.5 trillion)**
- **Long Term Cost of Entitlement Programs**
- **Cost of Repairing the Economy**
- **Cost of New Programs**
 - **Health Care Reform (\$634billion+)**
- **Simplification of the Tax Code?**
- **Repaying the Federal Debt**

What Happens to our Taxes???

According to the 2009 Social Security Trustees Report:

➤ **Social Security Runs a Deficit in 2016**

➤ Program

Dies

Disability

2020

Old Age & Survivors

2037



What Happens to our Taxes???

The 2009 Deficit (**\$1.75 trillion**) will be **12.2%** of the GDP – the highest since WWII

Deficits for the Next Decade will run **\$700 billion** to **\$1.0 trillion** per year
(2010 will be **\$1.17trillion**)

Interest on the Federal Debt is **4.2%** of the budget – expected to be **11%** by 2013

MEMORABLE QUOTE

“President Obama has promised that taxes will not be increased for families making under \$250,000. That is a promise that will probably have to be dropped down the road.”

Washington Post Editorial, April 10, 2009

MEMORABLE QUOTE

“The President has kept all of the promises he intended to keep”

Clinton aide George Stephanopolous talking about President Clinton

Bottom Line?

Federal Income Taxes are Going Up

✓ **36% and 39.6% as Top Rates** - Probably in 2011

✓ You Cannot Solve the Problem with just Taxing Those Earning over **\$250,000** – Tax Increases could go as low as **\$100,000**

✓ **Loss of 15% Dividend Tax Break**

✓ **Lower Itemized Deductions – an Effective Tax Benefit of 28%?**

✓ **Higher Capital Gain Rates – 20%, 25%, 28% or Higher?**

✓ **Loss of Business Tax Breaks**

State Taxes are Going Up

✓ **Budget Shortfalls in almost Every State**

✓ **Piggy-Back Impact of Federal Changes**



Bottom Line?

More Rigorous IRS Enforcement Actions

- ✓ More **Audits** on Taxpayers with Incomes over \$100,000
- ✓ **Overseas Bank** Accounts (amnesty until late September)
- ✓ Use of **S Corporations** to Avoid Social Security Taxes
- ✓ Stricter Rules on **Independent Contractors**
- ✓ More **1099** Reporting



Bottom Line?

- (1) **Interest Rates** will go Up
- (2) **Social Security Taxes** are Going Up
- (3) **Entitlement Benefits** will be Reduced
- (4) **Inflation** will Increase
- (5) **Financial Regulation** will Increase
- (6) **Tax Complexity** will Increase





2005 1040

1040 EZ 2 DO TAX FORM
New Simplified Tax Form

- 1. How much money did you make? \$_____**
- 2. Send it to us.**



Department of the Treasury
Internal Revenue Service