

Who bears the tax burden in the U.S.?

"Soak the rich" is a popular concept among some groups. Raise taxes on the wealthiest among us, and we'll raise revenue and be rolling in surplus cash, right?

Now that the 2006 IRS figures are out, we know that almost all taxes that were collected were paid by people labeled as "the rich." Part of the reason for that increase is that favorable capital gains rates encouraged Americans to invest more, and corporations that pay lower tax rates are more able to pay dividends. But also, history shows that when taxpayers feel tax rates are fair, they are less likely to invest in tax shelters or to simply hide income, and more likely to report what they actually earned. John Kennedy and Ronald Reagan both knew and proved that theory.

In 2003, millionaire households paid \$136 billion in taxes, or 19 percent of all taxes. Then tax rates were cut, and naysayers including those in the Congress-

sional Budget Office and the Tax Policy Center woefully predicted that a trillion dollars in lost revenue would result. Instead, in 2006, millionaire households paid \$274 billion in taxes, about 40 percent of all taxes. In the same period, the deficit as a percentage of GDP fell from 3.5 percent in 2003 to 1.9 percent in 2006.

The same naysayers that wrongly predicted a trillion dollar loss didn't learn from their error. Now they predict that if the Bush tax cuts are repealed, the federal coffers will rake in a cool extra trillion.

Time will tell, but if history is an indicator, the naysayers will not be laughing all the way to the bank, but the ones who qualify as "rich," that is, with incomes of at least \$108,904, will be hocking their jewels to pay their own tax bills, if they aren't too busy hunting for tax shelters.

Here's how the figures break down.

The top 1 percent of taxpayers (those with incomes of at least \$388,806) earn 22 percent of all U.S. income, but pay 40 percent of the total tax.

The top 5 percent of taxpayers (with income of at least \$153,542) earn 37 percent of all U.S. income, but pay 60 percent of all tax.

The top 10 percent of taxpayers (those with incomes of at least \$108,904) earn 47 percent of all U.S. income, but pay 71 percent of the total tax.

The top 50 percent of taxpayers (those with incomes of at least \$31,987) earn 87 percent of all U.S. income, but pay 97.1 percent of the total tax.

The lower 50 percent of earners in the U.S. (those making below \$31,987) earn less than 13 percent of all U.S. income, collectively pay only 2.9 percent of the total tax. Because of refundable credits like the Earned Income Credit, many pay nothing yet get refunds.

It's Not Too Late to Claim Your Economic Stimulus Payment

You must file a return by October 15 to receive a payment prior to year's end. It can take up to eight weeks for the IRS to process the return and issue the check.

People who have no tax filing requirement but have at least \$3,000 in qualifying income should file a simple Form 1040A to claim the minimum payment of \$300 (\$600 for married couples) plus the \$300 payment for each qualifying child younger than 17 as of Dec. 31, 2007. Qualifying income includes any combination of earned income, nontaxable combat pay as well as certain payments from the Social Security Administration, Department of Veterans' Affairs and the Railroad Retirement Board.

Tax Calendar for Sept

Individual:

15 – Estimated tax payment

Business:

15 – Monthly Payroll Taxes
1120 Tax Return Due
1120S Tax Return Due

Laugh Out Loud

Dirty Magazines

Soon after being transferred to a new duty station, my Marine husband called home to tell me he would be late -again. He went on to say that dirty magazines had been discovered in the platoon's quarters and they had to discipline the whole squad. I launched into a tirade, arguing that many men had pictures hanging in their quarters at our previous post, so his new platoon should not be penalized for something trivial.

My husband calmly listened to my gripes and then explained, "Honey, dirty magazines: the clips from their rifles had not been cleaned."

IRS Increases Mileage Rates through Dec. 31, 2008

WASHINGTON – The Internal Revenue Service announced an increase in the optional standard mileage rates for the final six months of 2008. Taxpayers may use the optional standard rates to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

The rate increased to 58.5 cents a mile for all business miles driven from July 1, 2008, through December 31, 2008. This is an increase of eight (8) cents from the 50.5 cent rate in effect for the first six months of 2008.

The new six-month rate for computing deductible medical or moving expenses will also increase by eight (8) cents to 27 cents a mile, up from 19 cents for the first six months of 2008. The rate for providing services for charitable organizations is set by statute, not the IRS, and remains at 14 cents a mile.

Motivational Quote

"Yesterday is gone. Tomorrow has not yet come. We have only today. Let us begin."

Mother Teresa (1910–1997)

Life in the Fast Lane: Plan for Business Success

One problem many new business owners encounter is not budgeting enough money for taxes. Better to gather your records and file your tax forms by their due dates - even if you can't pay the full amount. Even partial payments will help reduce interest and penalties accruing.

If you are still unable to pay at the next due date, continue to file your return on time to avoid the failure-to-file penalty. Attach an Installment Agreement Request (Form 9465) and propose your own monthly payment date and amount.

Note: The failure-to-pay penalty may be reduced from .5 percent to .25 percent per month during the period in which an individual installment agreement is in effect. However, you must have filed on time.

The Do-It-Yourself Social Security Program

For most employees, social security and Medicare taxes are deducted per paycheck to support retirement income and Medicare coverage. Self-employed taxpayers, however, pay for coverage through the self-employment tax you annually compute and pay with your federal income tax.

Generally, if you carry on a trade or business as a sole proprietor, an independent contractor, a member of a partnership that carries on a trade or business, or are otherwise in business for yourself, then you are self-employed. Part-time work can qualify as self-employment even if it's work you do in addition to a regular full-time job. The maximum amount of net earnings subject to the social security part of the self-employment tax for tax years beginning in 2008 has increased to \$102,000. All net earnings of at least \$400 are subject to the Medicare part of the tax.

In most cases, self-employment income does not include interest, dividends, capital gains, or rent from real estate. Many self-employed people will have to make quarterly estimated tax payments. It's important to remember that your self-employment tax will increase the total federal tax you owe.

Be sure to take this into account when you determine how much estimated tax to pay each quarter. When you file your tax return, you must fill out Schedule SE to report your self-employment income and calculate your self-employment tax due.