



Making Sense Of The Noise On Taxes

It's interesting how, as a presidential election approaches, certain key issues almost invariably come to the fore. For example, many of you have probably been hearing a lot about taxes, with the Obama administration even proposing a Buffett Tax on those making over a \$1 million a year to collect even more from the rich and close the budget gap. Now, my goal here is to stay apolitical and not take sides on this pretty divisive issue.

One Point of View

On the one hand, there are the top 10% earners – those who make above approximately \$113,000 - who say that in absolute dollar terms, they pay 71.2% of the roughly \$900 billion in income taxes collected each year. These folks also point to the fact that a whopping 47% of all American households pay no taxes, and indeed even receive a dole through recent expansions in credits, deductions and exemptions, passed during the economic crisis in 2008. Indeed, under the current tax structure, a family of four making as much as \$50,000 owed no federal income tax in 2009, and the *bottom* 40% on average received a check from the government while owing nothing in taxes. Many will argue that it's not fair that the top 10% shoulder over 70% of the nation's tax burden. :
Definition: Free from self-interest, prejudice, or favoritism.

Then there's the argument on what's good for the economy as a whole. Many believe that a tax hike on the rich would undermine job creation in this fragile economy. Others believe that the private sector provides far better ROI than handing money over to the government which uses it on wasteful programs like cash-for-clunkers which hardly do anything to really jump-start the economy.

And Another

And then there's the more populist point of view – populist simply because the poor vastly outnumber the rich. And let's remember that populist sentiment need not necessarily be rooted in facts simply because the tax code is beyond most individuals, rich or poor. The populists cry that the Bush administration reduced taxes for the wealthy from the top rate of 39.6% down to 35%, often without considering reductions also made for the less wealthy. They also feel that the rich are subsidized through lower taxes on the bulk of their income, which comes from things like capital gains, dividends, and carried interest, which some believe should be taxed at a higher rate. The populists also point out that the top 1% holds a larger share of overall income, and should therefore pay more.

Pros, Cons

So, this debate will continue to rage on. But the reason I bring this up as a topic of discussion today is that I want you to be informed about some of the facts – sort of as a trailer with the plot's key points – so you can, if this movie catches your interest, go off and dig deeper, and align yourself with a point of view you sympathize with. I also say this because, as your financial advisor irrespective of whether you make more or less, I will always urge you to take full advantage of the credits, benefits and tax cuts you receive under the law – so this is a topic that impacts each one of us.

I am not going to comment on what's fair or not, because that's largely up to each individual to decide – in the eye of each beholder, as they say, because everyone is basically watching out for his own self-interest. Unarguably, the rich pay more in absolute tax dollars than everyone else, but at the same time, they are taxed at lower rates on certain items, and maybe that's not such a bad thing. What saner and better informed members on both sides agree on is that the solution has to be some acceptable combination of spending cuts and the elimination of certain deductions and tax credits, so we can reduce the federal deficit by \$4 trillion over the next 10 years.

The bottom line, as I see it, is that both sides have to give a little to right this ship that is the U.S. economy. For its part, the government must make sure that it reduces overly

bloated government programs so the rich feel that they are seeing their additional tax dollars put to good use in developing overall economic competitiveness, so the pie expands for everyone.

And on that note, I urge you to weigh in and do your bit to sanely bring financial equilibrium back to the U.S. economy, and to consider the facts and arrive at a balanced view irrespective of the side you choose to take.