

FEDERAL INCOME TAXES

With another year of federal individual income tax returns filed, let's take a look at the distribution of income earned and the federal taxes paid by taxpayers. The IRS has issued their analysis for the 2007 returns (latest data available). [1]

From the table below we see that the top 1% of taxpayers earned 23% of the total income and paid 40% of the total taxes. Adding in the next 4% we see that the top 5% of taxpayers earned 37% of the total income and paid 61% of the total taxes.

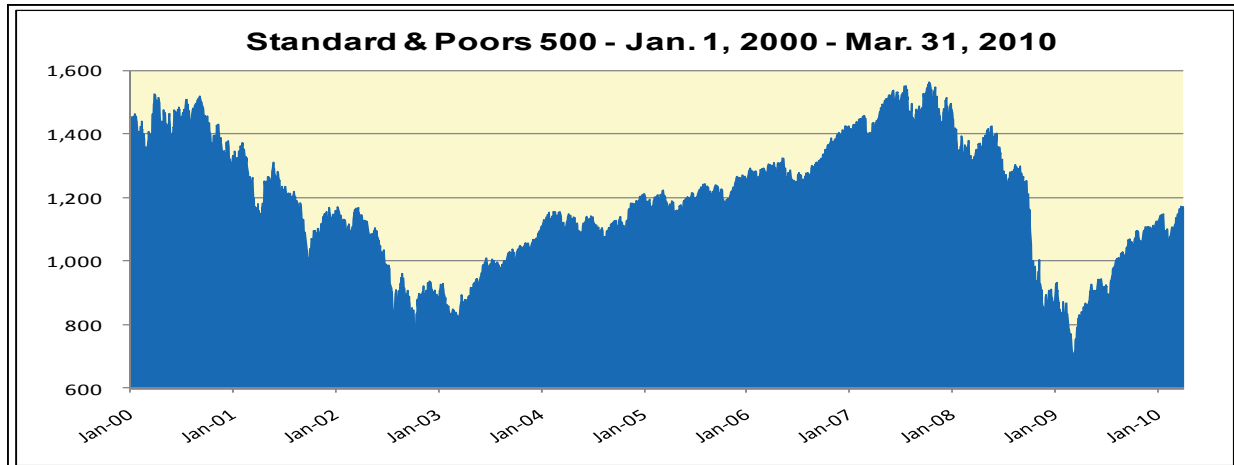
Adding in the next 5% we see that the top 10% of taxpayers earned 48% of the total income and paid over 71% of the total taxes.

By contrast, the bottom 50% of taxpayers (over 70 million filers) earned 12% of the total income and paid under 3% of the total taxes.

Summary of Federal Individual Income Tax Data, 2007						
Source: Internal Revenue Service						
<i>Category based on AGI</i>	<i>AGI brackets</i>	<i>Number of Returns with Positive AGI</i>	<i>(In Millions) Federal AGI</i>	<i>Percent of Federal AGI</i>	<i>(In Millions) Federal Taxes</i>	<i>Percent of Federal Taxes</i>
Top 1%	\$410,096 and up	1,410,710	\$ 2,008,259	22.83%	\$ 450,926	40.42%
Top 2 - 5%	\$160,041 to \$410,096	5,642,839	1,286,283	14.62%	225,367	20.20%
Top 6 - 10%	\$113,018 to \$160,041	7,053,548	933,297	10.61%	118,139	10.59%
Top 11 - 25%	\$ 66,532 to \$113,018	21,160,646	1,817,515	20.66%	171,443	15.37%
Top 26 - 50%	\$ 32,879 to \$ 66,532	35,267,743	1,674,859	19.04%	117,368	10.52%
Bottom 50%	under \$32,879	70,535,485	1,078,287	12.26%	32,261	2.89%
All Taxpayers		141,070,971	\$ 8,798,500	100.00%	\$ 1,115,504	100.00%
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THE MARKET & ECONOMY

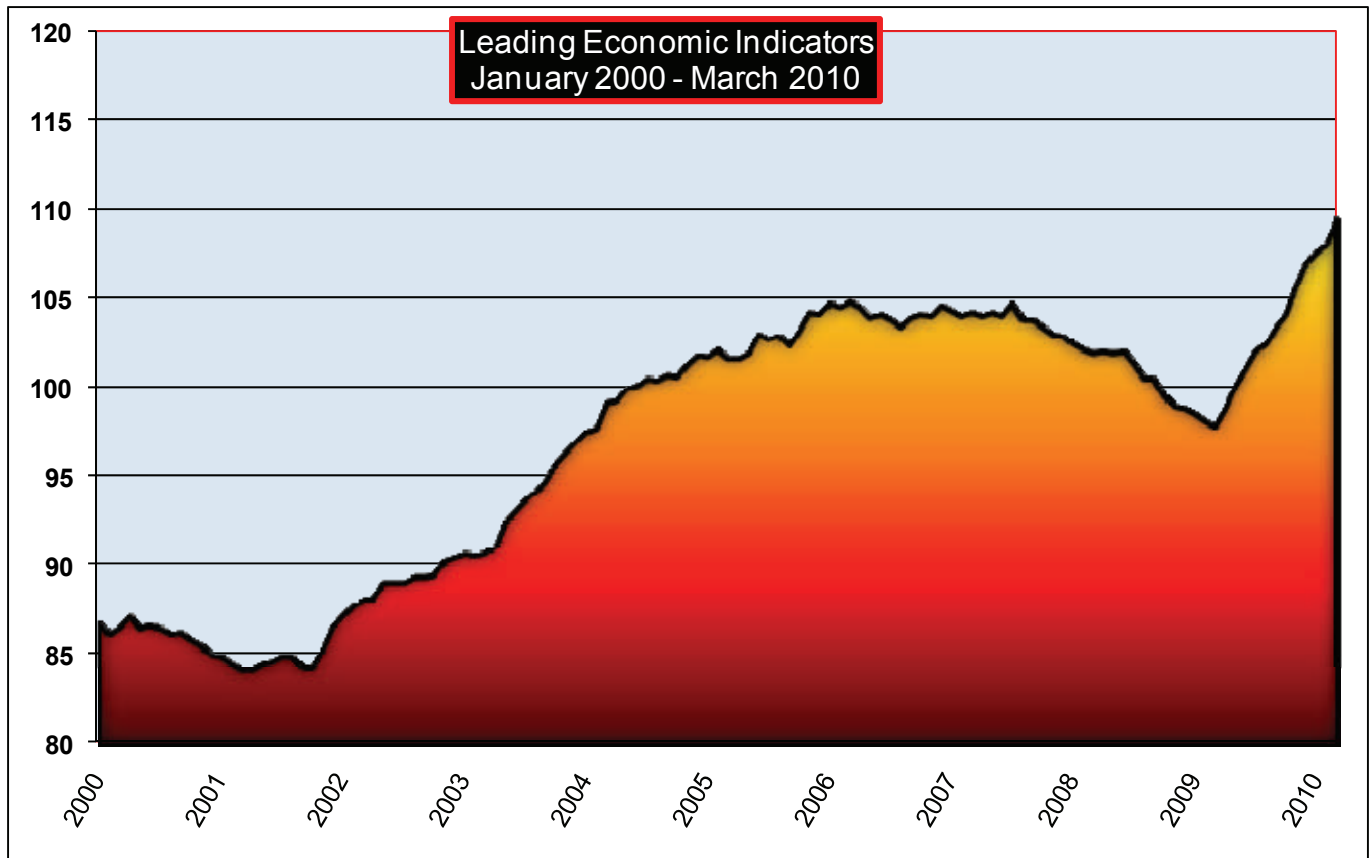
March, 2010 signaled the one year anniversary of the bear market low which occurred on March 9, 2009. The S & P 500 rose 68% during that year placing it as the second largest one year increase after a bear market in history. See tables below:



Historical U.S. Stock Bear Markets (1926 - 2009)

[2]					
<i>Peak</i>	<i>Trough</i>	<i>Duration (Months)</i>	<i>Bear Market Magnitude</i>	<i>Recession During Bear?</i>	<i>1 Yr Return After Trough</i>
9/3/1929	7/8/1932	34	-86%	Yes	124%
3/10/1937	4/28/1942	61	-60%	Yes	59%
10/9/2007	03/09/2009	17	-57%	Yes	68%
3/24/2000	10/9/2002	31	-49%	Yes	34%
1/11/1973	10/3/1974	21	-48%	Yes	38%
11/29/1968	5/26/1970	18	-36%	Yes	44%
8/25/1987	12/4/1987	4	-34%	No	23%
5/29/1946	6/13/1949	37	-30%	Yes	42%
12/11/1961	6/26/1962	6	-28%	No	33%
11/28/1980	8/12/1982	21	-27%	Yes	58%
2/9/1966	10/7/1966	8	-22%	No	33%
8/2/1956	10/22/1957	14	-22%	Yes	31%
7/16/1990	10/11/1990	3	-20%	Yes	29%
Average (excluding 2007 - 09):		22	-39%	-	46%

March, 2010 was also the 12th consecutive month that the Conference Board's Leading Economic Index® for the U.S. rose. The index is believed by many to be one of the best forward looking indicators of the U.S. economy. The index is comprised of ten different components. During March, seven of the ten components were positive. Over the last six months eight of the ten components have been positive. [3]



HEALTH CARE REFORM ACT

During the first quarter of 2010 the President signed legislation which forms the Health Care Reform Act. The Act contains numerous provisions including over \$400 billion in revenue raisers and new taxes. The provisions have differing starting dates and some provisions are phased in over a period of years. While this is not an attempt to explain the provisions in detail, below are just some of the provisions from the Act: [4]

- Starting in 2014, all individuals not covered by Medicare or Medicaid will be required to obtain health care coverage or pay a penalty unless they are exempt from the individual responsibility mandate.
- Certain individuals may qualify for a premium assistance tax credit or other forms of federal assistance.
- Individuals who do not obtain minimum coverage will be liable for a penalty. The penalty covers all members of a household, including children. The penalty is capped at specific dollar amounts.

- The Act does not include a public option but does provide for state insurance exchanges where individuals can shop for coverage.
- The Act does not require employers to provide health insurance coverage. But, "large" employers (generally 50 or more full time employees) not providing minimum coverage will be assessed a penalty (full time is defined as 30 hours per week).
- Businesses with less than 50 full time employees are exempt from the employer responsibility.
- Beginning in 2010, "small businesses", as defined in the Act, that pay at least half of the cost of employee health insurance premiums may qualify for a federal tax credit.
- Starting in 2013, the Act expands the Medicare Tax. The expansion imposes a rate of 0.9% on earned income in excess of \$200,000 for an individual and \$250,000 for married couples filing jointly.
- In addition, the expansion imposes a rate of 3.8% on unearned income for individuals with AGI over \$200,000 and married couples filing jointly with AGI over \$250,000. For purposes of the Act, unearned income includes interest, dividends, royalties, rents, gain from sales of assets used in passive activities, and income earned from passive business income. Unearned income, as defined in the Act, does not include distributions from IRA's or retirement plans.
- Starting in 2018, the Act imposes an excise tax on "Cadillac" health insurance plans. These plans are defined by annual premium and include plans costing more than \$10,200 per year for an individual and \$27,500 per year for a family (Limits stated in 2010 dollars and will be adjusted for inflation).
- Starting in 2011, the Act imposes annual fees on pharmaceutical manufacturers and importers and health insurance providers.
- Starting in 2013, the Act raises the threshold for deducting medical expenses from 7.5% of AGI to 10.0% of AGI. Taxpayers age 65 and over will be temporarily exempt from this provision.
- Beginning in 2010, dependent children up to age 26 may remain on a parent's health insurance policy, insurers cannot discriminate against children with preexisting conditions and policies can no longer contain lifetime limits on coverage.

The Congressional Budget Office claims the 2,562 page Act will cost \$940 billion over 10 years and reduce the number of uninsured by 32 million. The Act is estimated to reduce Medicare payments to health providers by \$427 billion. [5] Time will tell what effect this historic Act has on our economy.

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References

- [1] *Summary of Latest Federal Individual Income Tax Data*, by Gerald Prante, July 30, 2009 www.taxfoundation.org
 - [2] Fidelity Investments Market Analysis, Research Education 2008 Market Update, page 30 (updated by JVL Associates, LLC for 1st Quarter 2010 results)
 - [3] The Conference Board – For Release: 10am ET, Monday, April 19, 2010
 - [4] Special Report – Health Care Reform Act, March 30, 2010 CCH Tax Briefing
 - [5] *Historic Vote on Health*, by Greg Hitt and Janet Adamy, Wall Street Journal, March 30, 2010, Page A-1
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