

The Tax Issue

Who Pays Taxes-Revisited

In a recent edition of *The DLB Bulletin*, we took a close look at who actually pays taxes in the U. S. Statistics from the IRS show that for tax year 2007, our reporting held true. According to the data, America's biggest earners in terms of adjusted gross income (AGI) continue to pay the lion's share of personal income tax while the so-called "middle class" pays what can only be described as fair.

In 2007, slightly more than 141 million tax returns were filed with the IRS. Of these filers, 47 million used exemptions, deductions and tax credits to eliminate federal income tax liability. The top 50% of these filers had AGI of just over \$32,800 and represented 97.11% of personal federal income tax paid for the year. Filers in the bottom 50% had AGI under \$32,879 and accounted for only 2.89% of income tax revenue.

Contrary to what we hear from the mainstream media and many politicians, the top 1% of filers (AGI at or above \$410,096) earned approximately 22.8 percent of the nation's income and paid 40.42% of the total federal income tax revenue for the year. The top 5% (AGI between \$160,041 and \$410,096) of taxpayers accounted for 60.63% of all federal income tax revenue. The top 25 percent of taxpayers (AGI over

\$66,532) earned 67.5 percent of the nation's income and paid more 86.59% of federal income tax.

To find out how the middle class fared, let's look at the middle range of filers for 2007. Those in the 26% to 50% range had AGI less than \$66,532 and paid 10.52% of total income tax revenue. That means that, taken together, these two groups paid approximately 13.41% of total federal income tax revenue in 2007. That seems a reasonable burden by any definition of "fair."

On the other hand, the top 1 percent of tax filers paid about the same amount of federal income taxes as the bottom 95 percent of filers. That's a burden that couldn't be considered fair by any definition of "reasonable."

Tax Filing Basics

The advent of a new year always raises the specter of tax preparation and filing. However, the process needn't be as painful as it may seem. If you keep accurate records and organize your information early, you can avoid many of the headaches people associate with filing taxes. Here, in no particular order, are some key things to remember.

- Make sure you receive all relevant tax forms (W-2s, 1099s, etc.) from those that provide them. It's also a good idea to make sure the issuers of these forms have your correct mailing address;
- Make sure all required social security numbers are correct;
- Keep all your receipts for expenses that *may* be applicable (it's better to have too many than too few);
- Document money spent on tax-favored items such as tuition payments,

energy-saving devices, health care and business expenses;

- Make sure you have documentation of appropriate charitable contributions;
- Keep records of property taxes paid before the end of the year including those state taxes paid as part of your mortgage payments;
- Make any applicable contributions to qualified retirement accounts (IRAs, Roth IRAs, SEPs, etc.) by April 15, 2010.

To ease the burden of filing your taxes, let us do the filing for you.

Stimulus-Related Tax Issues

The Obama stimulus plan, which lowered federal income tax withholding rates, resulted in more take-home pay and less money going to taxes. That means you could end up cutting your refund or owing more tax, so keeping track of the deductions discussed above is critical to limiting your tax liability.

First time home buyers who closed on new homes before Dec. 1, 2009, qualified for an \$8,000 refundable tax credit. The credit has been extended for first-time buyers who close before June 30, 2010. The credit has also been expanded to include a \$6,500 credit for new home buyers who meet certain credit qualifications.

Also, if you purchased a new car but didn't qualify for "cash for clunkers", you may still be able to deduct the sales and excise taxes from your 2009 taxable income, even if you don't usually itemize. The offer, which expired on Dec. 31, is good for purchases of cars,

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light trucks, motor homes and motorcycles.

Small Business 2009 Tax Filing Tips

The Work Opportunity Tax Credit (WOTC) provides a special jobs credit if you hired workers from one of several economically disadvantaged groups. The WOTC generally equals 40% of the first \$6,000 of wages paid to a qualified worker. Typically, qualified wages consist of the worker's wages attributable to the one-year period beginning with the day he or she begins working for the employer. Note that the new economic stimulus law also offered credit eligibility for workers hired or starting work in 2009 and 2010.

In 2009, businesses could pay \$230 a month in tax-free parking for employees and the cap on tax-free transit passes was \$120 a month. In addition, businesses could offer employees who prefer to cycle to work a new tax-free benefit of \$20 per month to cover the cost of buying, maintaining and storing a bicycle for commuting purposes.

The section 179 Expense Deduction for equipment placed in service during 2009 was \$133,000, a decrease from 2008, when a temporary \$250,000 ceiling was in effect. The annual investment limit dropped to \$530,000 for 2009, following a temporary increase to \$800,000 in 2008.

The maximum amount of wages subject to social security tax was increased to \$106,800 for 2009. The tax rate remains 7.65 percent on employers and employees.

The standard business mileage rate for 2009 was 55 cents per mile, 24 cents for moving or medical purposes, and 14 cents a mile if driving for charitable purposes.

Tax Strategies and Investments

Strategic tax planning is a key element of our investment portfolio manage-

ment. So as we approached year-end, we reviewed our portfolios for opportunities for potential tax savings. Of course, all such decisions are made within the context of our fiduciary responsibility.

The maximum capital gains tax rate is 15% for gains from the sale of qualifying assets held more than one year. In fact, taxpayers in the 10% to 15% ordinary tax brackets could do even better by taking advantage of the 0% capital gains rate for 2009. The 15% maximum tax rate is available for both the regular and alternative minimum tax (AMT).

If you convert a traditional IRA to a Roth IRA in 2010, the tax on 2010 conversion income can be deferred and spread out over 2011 and 2012. If you are in the maximum tax bracket (35%) you will not want to spread out the tax over two years, as the Obama administration intends to increase the maximum tax rate to 39.6% for tax years 2011 and 2012.

"We contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."

-Winston Churchill

Tips for Filing Your 2009 Taxes

Each year the IRS makes changes to the tax code. Some are beneficial to taxpayers, others are not. In either case, they must be followed. Here is a partial list of some important changes to consider when filing your 2009 taxes.

- The alternative minimum tax (AMT) went down to \$33,750 for single filers and \$45,000 for married couples filing jointly;
- The \$250,000 tax exemption (\$500,000 for married couples) for turning a second home into a main residence and then selling that home at a profit was limited for 2009. The new taxable amount will be based on the

ratio of time after 2008 that the home was used as a second home or rental property, to the total time the seller owned the home. The balance of the gain remains eligible for the exclusion;

- The federal estate tax exemption has been eliminated for 2010 (It remains to be seen what will happen after 2010.);
- The annual gift tax exclusion will remain at \$13,000;
- Homeowners can claim a tax credit of 30% of the full cost of installing home solar power and geothermal HVAC systems. Also, there are new tax credits for small wind turbines for residential or business use as well as biomass stoves. The solar and wind residential tax credit can be claimed against the alternative minimum tax as well;
- The standard deduction for single filers went up to \$5,700 from \$5,450 last year. For joint filers the deduction will be \$11,400 for tax year 2009, which is up from \$10,900;
- The annual amount you could save in your 401(k) was \$16,500 if you're under 50 and \$22,000 if you're over 50. The annual amount you could save in your traditional or Roth IRA is \$5,000 if you're under 50 and \$6,000 if you're over 50;
- The maximum earned income tax credit for low and moderate income (income limit on this credit was \$43,415 for 2009) earners with two or more children is \$5,028 for tax year 2009.

As you can see, changes to the tax code while relatively simple in the overall scheme of things can still be complicated and difficult to apply to an actual tax return.

That's why we encourage our clients to let us file their tax returns. Our tax experts are well aware of these and other changes to the tax code that when applied correctly (and legally), can reduce our clients' tax liability.



Millionaires in America

One of the best books of 2009 was *Stop Acting Rich...and Start Living Like a Real Millionaire*, by Thomas J. Stanley, PhD. Stanley, an expert on wealth and the affluent in America, has been studying millionaires since the early 1970s. One of the most interesting aspects of Stanley's book is his discussion of the spending habits of millionaires. The way millionaires spend their money might surprise you. Let's take a look.

In the book, Stanley says, "If you spend in anticipation of becoming rich, you are unlikely ever to become truly wealthy." This speaks directly to two common characteristics of the typical millionaire: being frugal and living below their means. In fact, most millionaires live below their means and this is reflected in their spending habits.

Stanley's research demonstrates that typical millionaires like value. They don't mind spending more on an article of clothing, an automobile or a home if they believe it is going to provide the best value over time. (Remember, FRUGAL doesn't mean CHEAP). Let's take a look at some examples.

According to Stanley's research, millionaires prefer shoe brands such as Nine West, Easy Spirit, Allen Edmonds and Johnston & Murphy. They typically

wear clothing brands such as Talbots, Ann Taylor, Brooks Brothers and Jos. A. Banks. And, the stores most commonly patronized by millionaires are Nordstrom, Macy's and Kohl's. As you can see, millionaires choose brands and stores that, while not inexpensive, are clearly not boutique or haut couture. They simply provide quality and value.

It's a good bet that most people think millionaires drive luxury cars such as Mercedes, BMWs or Jags, but these models represent a small percentage of millionaire rides. As with clothing, millionaires prefer value over status. In fact, the most common model of car driven by millionaires is the Toyota, followed by Lexus then by Mercedes, Ford and BMW. And millionaires are brand-loyal, with retention rates running from 37% (Buick) to 45.5% (Chevrolet). Those that do buy prestige cars, typically do so after they've achieved financial independence; often as a reward for their own hard work.

In his research, Stanley found that many millionaires—1.14 million to be exact—live in homes valued at less than \$300,000. [Warren Buffet, for example, lives in the same house he purchased in the 1950s. It may be valued at more than \$300,000 now, but relative to his wealth, it's modest by any

measure.] Here are some more facts about millionaire homeownership.

Millionaires live in their homes longer. In fact, 53% have not moved in the last ten years and 24% have moved only once. Also, most millionaires live in older, more established neighborhoods, in homes built before 1973. Additionally, millionaires tend to live in traditional-style homes that are well constructed and relatively modest in size (3 bedrooms, 3 baths). Perhaps most importantly, millionaires tend to buy the home described above after they had accumulated wealth with established and predictable cash flow.

The key takeaways here are that millionaires typically live below their means (making a million is not the same as being worth a million). They are willing to pay for quality and value, but rarely make purchases based solely on the prestige value of the product. The typical millionaire dresses, drives and lives in a style that is comfortable, reliable and affordable. While enjoying the finer things in life, millionaires don't buy status vehicles, objects or homes just for status's sake. They prefer to purchase things that provide value.



All Things Money with David Blain

Thursdays at 6:30 p.m.

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Inside the Company and In the News: A Look Back at 2009

D. L. Blain & Co., LLC completed its move into new headquarters during the fall of 2009. The firm purchased a suite of offices at 2131 S. Glenburnie Road, New Bern, NC. We will maintain our current telephone, facsimile and P.O. Box. Our new location will enable us to meet with clients and otherwise conduct our business in a more inviting and comfortable atmosphere.

D. L. Blain & Co., LLC was named one of *Wealth Manager* magazine's Top Wealth Managers for 2009. This is the second year in a row that the firm has been included in this national ranking of wealth managers. *Wealth Manager* annually publishes its list of the top wealth managers in the country based on average assets under management per client. D. L. Blain & Co., LLC is one of only 7 North Carolina wealth managers to make the list and is the highest rated firm in Eastern North Carolina.

D. L. Blain & Co., LLC was named to *Financial Advisor* magazine's fourth annual independent Registered Investment Advisor (RIA) Survey for 2009. *Financial Advisor* annually publishes its survey of the top independent RIAs in the country based on assets under management. D. L. Blain & Co., LLC is one of four North Carolina RIAs—and the only RIA in Eastern North Carolina—to be included in the survey.

David L. Blain, president and chief investment officer, began hosting a weekly half-hour radio show, *All Things Money with David Blain*, on 94.1 FM WNBU on September 10, 2009. The show focuses on wealth management topics such as investing, taxes and real estate. *All Things Money with David Blain* airs each Thursday at 6:30 pm Eastern Time and reaches listeners throughout Craven and Carteret counties in Eastern North Carolina. 94.1 FM WNBU is New Bern's first community radio station featuring a talk radio format. In addition to Mr. Blain, the station's on air personalities include Glen Beck, Clark Howard, Neal Boortz and Mike Savage.

