

A provocative statistic. Last July, the nonpartisan Tax Policy Center (a joint venture of the Urban Institute and the Brookings Institution) estimated that 47% of Americans would not owe a penny to the IRS for tax year 2009.¹

The White House has projected the federal deficit at \$1.6 trillion for 2010 – that's about 10.6% of our GDP, a percentage unseen since the 1940s. So is it fair to the nation that so many Americans are legally avoiding federal income taxes?²

A major reason? Refundable tax credits. The Making Work Pay credit and other tax cuts accompanying the federal stimulus gave millions more of us a refund this time around. If these credits hadn't appeared, the TPC says 38% of us still wouldn't have owed federal income tax for 2009, thanks to assorted variables - astute tax planning, low taxable income, and other factors.¹

People who assume the rich are dodging taxes are misinformed. The TPC found that only about 1.5% of those with taxable incomes of \$1 million or more owed no federal income tax for 2009. For those with taxable incomes from \$500,000-\$1,000,000, the estimate rises to just 2%.³

If you made between \$75,000-100,000 in taxable income in 2009, you may have been in the lucky 9.2% who the TPC says didn't owe anything to the IRS. In contrast, it figured that 61.8% of taxpayers who earned \$20,000-30,000 last year and 47.5% of those with taxable incomes from \$30,000-40,000 had no federal tax liability.³

Can you bring the deficit down without new or excessive taxes? Good question. At first glance, it may seem impossible. The Treasury, however, has a plan to do it, and it looks like this: cut war spending by \$250 billion, save another \$252 billion by letting tax cuts sunset for couples making more than \$250,000 yearly, collect \$331 billion in bank fees, and save \$105 billion from a selective federal spending freeze. This could shrink the deficit to around 3% of GDP, which the Treasury feels is bearable.⁴

Of course, bipartisan politics might get in the way. Higher federal income taxes (and new kinds of taxes) seem to be looming in the future; as for legislators figuring out a way to spare us from them, that would seem a longshot.

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Citations.

¹ taxpolicycenter.org/publications/url.cfm?ID=1001289 [7/2/09]

² reuters.com/article/idUSTRE63C09120100413 [4/12/10]

² usatoday.com/news/opinion/editorials/2010-04-16-editorial16_ST_N.htm [4/16/10]

⁴ cnbc.com/id/36432254 [4/13/10]