



## DEMOCRATS' TICKING TAX BOMB, PART I

### Overview: Americans to Pay Higher Taxes Starting January 1, 2011

Get ready to pay higher taxes in 2011 thanks to Democrats in Washington. Starting January 1, 2011 – less than six months from now – an unprecedented, \$3.8 trillion tax increase is scheduled to kick in, affecting every American who pays income taxes. This Democrat tax hike will force hard-working Americans to pay over \$200 billion in higher taxes next year alone.

What are some of these tax increases? They include:

<b>Higher Income Tax Rates on ALL Americans Who Pay Income Taxes</b>		
<b>Individuals and Small Businesses* with Taxable Income in the Following Ranges...</b>	<b>... Pay This Statutory Rate on that Range of Income in 2010...</b>	<b>...But will Pay This Statutory Rate on that Range of Income in 2011</b>
Up to \$8,375 for single filers and Up to \$16,750 for married couples	10%	15%
Between \$8,375 and \$34,000 for single filers and Between \$16,750 and \$68,000** for married couples	15%	15%
Between \$34,000 and \$82,400 for single filers and Between \$68,000** and \$137,300 for married couples	25%	28%
Between \$82,400 and \$171,850 for single filers and Between \$137,300 and \$209,250 for married couples	28%	31%
Between \$171,850 and \$373,650 for single filers and Between \$209,250 and \$373,650 for married couples	33%	36%
Over \$373,650 for both single filers and married couples	35%	39.6%***

*Dollar amounts listed in the table above will be indexed for inflation in 2011. Amounts listed for married couples are for married couples filing joint returns.*

*\*According to the Joint Committee on Taxation (JCT), 94% of all U.S. businesses in 2007 were S corporations, partnerships, or sole proprietorships – “pass-through” business types commonly used by small businesses – that file their taxes on their owners’ individual Form 1040s and pay taxes at the individual tax rates.*

*\*\* Because of one of the marriage penalties that will be reinstated (see below), this \$68,000 amount will drop to \$58,200 in 2011, meaning that a married couple with as little as \$58,200 in taxable income will be subject to the higher 28% rate on their next dollar earned, rather than the 15% rate.*

*\*\*\* Because of the reinstatement of additional, hidden tax rates (see below), while the top statutory rate will be 39.6% in 2011, the top effective rate will actually be 41.6%.*

## Higher Taxes if You Are Married

For Married Couples Filing Jointly, the Marriage Penalty Is Reinstated With Respect To...	2010	2011
The Standard Deduction	Singles: \$5,700  Married: \$11,400  <u>No marriage penalty</u> because the standard deduction for married couples is twice the standard deduction for singles	Singles: \$5,800  Married: \$9,750  <u>Marriage penalty is reinstated</u> because the standard deduction for married couples is \$1,850 less than twice the standard deduction for singles
The last dollar of income taxed at the 15% rate (instead of at 25% in 2010 or at 28% in 2011, the next highest tax rate in effect)	Singles: \$34,000  Married: \$68,000  <u>No marriage penalty</u> because the last dollar of income taxed at 15% (instead of at 25%, the next highest rate) for married couples is twice the corresponding amount for singles	Singles: \$34,850  Married: \$58,200  <u>Marriage penalty is reinstated</u> because the last dollar of income taxed at 15% (instead of at 28%, the next highest rate) for married couples is \$11,500 less than twice the corresponding amount for singles

*Dollar amounts listed in the table above for 2011 are JCT estimates reflecting expected inflation adjustments.*

## Higher Taxes if You Are A Parent

Pro-family Tax Benefit	2010	2011
Child Tax Credit	\$1,000 per child	\$500 per child

## Higher Taxes on Investments that Grow the Economy and Create Good Jobs

Investment Incentive	2010	2011
Top rate on long-term capital gains	15%	20%*
Top rate on qualified dividends	15%	39.6%*

*\* Because of the reinstatement of additional, hidden tax rates (see below), while the top statutory capital gains rate will be 20% in 2011, the top effective rate will actually be 22%. For dividends, while the top statutory rate will be 39.6% in 2011, the top effective rate will actually be 41.6%.*

*Note that, under the Democrats' new health law, beginning in 2013, investment income will be subject to an additional 3.8% surtax for single taxpayers earning more than \$200,000 and married couples earning more than \$250,000. This will bring the top statutory rate on capital gains to 23.8% and the top statutory rate on dividends to 43.4% in 2013. Because of the additional, hidden tax rate increases described below, however, the top effective rate on capital gains will be 25.8% in 2013, and the top effective rate on dividends will be 45.4%.*

<b>Higher Taxes through Additional, Hidden Tax Rate Increases</b>			
<b>Hidden Tax Rate Increase Reinstated</b>	<b>Individuals and Small Businesses* with Adjusted Gross Income...</b>	<b>... Pay this additional, hidden tax rate increase in 2010...</b>	<b>... But pay this additional, hidden tax rate increase in 2011</b>
Personal exemption phase-out (PEP)	Above \$171,000 for single filers and Above \$256,700 for married couples filing jointly	None	Approximately 0.8%
Pease limitation on itemized deductions (such as mortgage interest, charitable contributions, and state and local taxes)	Above \$171,000 for both single filers and married couples filing jointly	None	Approximately 1.2%
<p>Top <u>effective</u> marginal tax rate on income (including dividend income) in 2011, including reinstatement of these hidden tax rate increases:</p> <p style="text-align: center;">           39.6% (top statutory rate)            0.8% (PEP)            + <u>1.2% (Pease limitation)</u>  <b>41.6%</b> </p>			

*\*According to the Joint Committee on Taxation (JCT), 94% of all U.S. businesses in 2007 were S corporations, partnerships, or sole proprietorships – “pass-through” business types commonly used by small businesses – that file their taxes on their owners’ individual Form 1040s and pay taxes at the individual tax rates.*

*Dollar amounts listed in the table above are JCT estimates for 2011 reflecting expected inflation adjustments.*

*Note that, under the Democrats’ new health law, beginning in 2013, dividend income will be subject to an additional 3.8% surtax for single taxpayers earning more than \$200,000 and married couples earning more than \$250,000. Factoring in the additional, hidden tax rate increase described in this table, the top effective rate on dividends will be 45.4% in 2013.*

<b>Resurrection of the Death Tax</b>		
<b>Estate Tax Provision</b>	<b>2010</b>	<b>2011</b>
Exemption amount	N/A – Death Tax repealed	\$1 million
Top rate	N/A – Death Tax repealed	55%

For examples of how these looming tax hikes will affect typical American taxpayers, stay tuned for Part II of this series, coming soon.