



How To Pay Zero Tax

Years ago, comedian Steve Martin gave us an easy formula for making a million dollars without paying tax. "First . . . ya get a million dollars." Then, when the tax man comes to your door and says you never paid taxes, just tell him "I forgot!" That's a great plan, assuming you can get your hands on the million bucks and you're willing to take your chances with the tax man. But what about those of us who don't have a million dollars and those of us who remember we have to pay taxes? Are there better ways for getting that tax bill down to zero?

The Washington-based [Tax Policy Center](#) estimates that a full 46% of Americans pay no federal income tax. And those non-payers represent a surprisingly broad cross section of Americans. Over 10% of them report incomes over \$50,000. And in 2008, there were 18,783 who earned over \$200,000 and owed no federal income tax. So, how do they do it?

About half of the non-payers just don't make enough money to owe any tax. They rely on the standard deduction and personal exemptions to avoid any tax on their income. But the Tax Policy Center identified 38 million Americans who rely on one or more tax expenditures to pull their tax down to zero. ("Tax expenditure" is Washington-speak for tax provisions like deductions and credits that reduce tax revenue.)

- **Seniors:** 44% of non-payers benefit from the extra standard deduction for those over age 65, the elderly tax credit, and the exclusion of Social Security from taxable income. (The TPC study calls these "elderly tax benefits" - our own unscientific survey shows that half of all seniors don't mind being called "elderly" if it means paying less tax!)
- **Families:** 30.4% of non-payers benefit from the child tax credit, the dependent care credit, and the earned income tax credit. (It's worth noting that if the Bush tax cuts actually expire on schedule after 2012, the child tax credit will disappear - throwing millions back into the "taxpayer" category.)
- **Beneficiaries:** 6.0% draw income from tax-free benefit programs, including Supplemental Security Income and Temporary Assistance for Needy Families.
- **Students:** 5.6% benefit from education credits to eliminate their tax.
- **Adjustments:** Another 5.1% of non-payers benefit from "above the line" deductions like self-employed health insurance and student loan interest and from tax-exempt interest income.
- **Itemizers:** 5.0% benefit from itemized deductions like mortgage interest, state and local taxes, and charitable gifts. (The Obama administration has proposed limiting the value of itemized deductions for higher-income earners to just 28%; however, in today's anti-tax climate, the President is about as likely to appear on *Jersey Shore* as he is to raise taxes.)
- **Credits:** 2.5% benefit from other credits, including the Savers Credit for retirement savings and the general business credit.
- **Investors:** Finally, 1.3% benefit from the special 0% rate for certain capital gains and qualified corporate dividends.

If you're like most clients, you see something on that list that saves *you* taxes, even if it's not enough to pull your taxes all the way down to zero. It's our job to help you take advantage of *all* of those strategies and more. If you know someone who's not happy with the taxes they pay, pass along this email, and we'll see how we can help!