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**Sent:** 06/14/2010 10:00 AM  
**To:** 'dhayden@Haydenci.biz'  
**Subject:** Newsletter 6/14/2010



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Volume 1, Number 18

Newsletter Dated 06/14/2010

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**Hayden Consulting, Inc.**

### Last Week:

- Why Use Quickbooks
- Estate and Gift Taxes

### Important Links:

Internal Revenue Service  
Indiana Department of  
Revenue

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**FOR SALE**  
**BUSINESSES**

## DID THE BUSH TAX CUTS FAVOR THE WEALTHY?

Tax cuts enacted early in the George W. Bush presidency, as well as through various economic stimulus plans, critics often label "Tax Cuts for the Rich." Whereas in reality the Bush tax cuts made the tax code more progressive, regardless of how progressivity is measured. One report concludes every major tax change over the past two decades has increased the share of taxes paid by the wealthiest Americans.

It's politically popular to say that tax cuts benefit the wealthy, but the accusation doesn't match reality. The tax system can be measured in four ways: (1) the share of taxes paid by different income groups, (2) the share of income paid in taxes, (3) the change in taxes relative to the change in income over time, and (4) a comparison of inequality of income to the inequality of taxes over time.

Looking at the first three measures, the top 1 percent of income earners pay more than one in every three dollars the IRS collects in taxes. From 1986 to 2004, the total share of the income tax burden paid by the top 1 percent of earners grew from 25.8 percent to 36.9 percent, while the total share of the tax burden paid by the bottom half of earners fell from 6.5 percent to only 3.3 percent. In the same period, the percentage of income the top 1 percent of tax filers paid in federal income taxes rose from 18.3 percent to 19.6 percent. By contrast, the percentage of income the bottom fifth of tax filers paid in federal income taxes dropped from 0.4 percent to zero. The income share of the top 1 percent rose 7.7 percentage points, from 11.3 percent to 19 percent, while the income tax burden rose by 11 percentage points, from 26 percent to 37 percent.

The final measure compares the inequality of income to the inequality of taxes paid over time among all income groups. This measure is a numerical representation between 0 and 1. The closer the index value is to 1, the more progressive the tax system. From 1990 to 2000, the progressivity index increased from 0.476 to 0.617, during a period where marginal tax rates increased but capital gains tax rates fell. From 2001 to 2004, under George W. Bush's tax reforms, the tax progressivity index continued to rise from 0.608 to 0.664.

It is important to consider how a system reacts because of the great discretion high earners have in how they earn income and pay taxes. Bush's reforms have helped diminish the income gap between rich and poor, rather than make it worse.

## AN IRS AUDIT

The thought of the IRS notifying us of an audit frightens most people. Our advice if you receive a notice for an audit, seek out a qualified tax professional to represent you at the hearing. But, if you're a do-it-yourself type of person, here are a few tips you can use to help you survive.

When the notice arrives, don't ignore it. You have 30 days and if you don't respond, the IRS may take action, such as automatically adjusting your tax liability. The next correspondence you receive could

## AVAILABLE

1. BRAND NAME garage door installation and repair company - Marion County and surrounding counties.
2. "C" store
3. Office Industrial complex-occupied with long-term tenants, 3 acres of land.
4. Operating Day Care Franchise
5. Beauty shop – Fishers

be a bill for an unknown amount.

Read and follow the audit instructions. It provides specific items under examination, so knowing what's under scrutiny determines what to bring to the hearing. Organize your records to make the auditor's job easier and make the hearing go quicker. Group items or attach an adding-machine tape to match the tax return. This will allow the auditor to review important issues. Don't believe anyone who tells you to throw your records in a bag, and tell the auditor to, "Go figure it out!" That's not wise and doesn't work. It's your legal responsibility to prove deductions.

Replace missing records, if you find them missing, call for duplicates. Do not go to an audit and claim that the records are lost. This does no good, and the auditor will still need the records. Deductions may be denied without supporting documentation.

Do not bring anything not requested by the original audit notice. If the auditor is curious about something on the tax return, but the item was not on the original list, you can politely say those records are at home and this issue may be dropped.

Don't be a jerk, and treat the auditor with respect. Make no mistake these folks are trained professionals. Taking out your frustrations, or insulting them with verbal abuse will not solve any problems. Assaulting an agent physically is a federal offense. These folks are simply trying to do their job. Be courteous, even if the auditor seems unreasonable. If you arrive at the audit with a chip on your shoulder, you might make the auditor less willing to see things in your light.

Only bring copies, no originals. The IRS isn't responsible for documents lost in its possession.

Stay on point, an auditor is trained to obtain valuable information in what may seem to be an innocuous discussion. Asking about an expensive car purchase, or a vacation, may give the auditor reason to believe you're not reporting all your income and expand the scope of the audit. When meeting with the auditor you're providing testimony, so answer questions with a simple "yes" or "no." If you must expand or explain, keep it brief and to the point. Don't give the auditor a reason to enlarge the examination because of your tendency to ramble. An audit is like a small trial. It is an adversarial exercise, so while you may disagree, don't be disagreeable. Settling any difference at this level is best, but if you can't come to agreement, you have rights that allow you to request a conference with the Appeals Division.

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