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**PERSONAL INCOME TAXATION IN THE UNITED STATES OF AMERICA
ON FEDERAL AND STATE LEVEL**

Thesis

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I proclaim that I have elaborated the submitted thesis on my own, only with using the sources and literature stated in it.

All sources and literature have been properly quoted.

The thesis has not been used for gaining the same or different degree.

Prague, December 15th 2010

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1. INTRODUCTION

Personal income taxation has been playing a significant role in the economy of the United States of America. Political and economic changes has been affecting the whole system of taxation throughout the history of the United States, and due to dynamic changes of the last decades, the taxation system became a mirror of the state of the country. The revenues for the government have been withdrawing according to the needs of the government and therefore have been shifting the tax brackets and changing deductions and credits according to the needs. The taxation system includes different variations of taxation to different levels of government.

The taxation system in the United States is complicated. “*The U.S. federal tax code contains over three million words – about 6,000 pages.*”¹ Every year, the changes of the taxation system get to the Code and make the tax system more complex, even when politicians are trying to proclaim that the tax system needs to be simplified. Taxes levied by other jurisdictions, as states and cities, add other layers of complexity to the whole tax system. Every year, Americans spend billion of hours working on their tax returns, using the professional services of accountants and tax preparers due to the complexity of the system.

Tax policy has important economic consequences, as for the economy of the country as a whole, also for the groups within the economy. The rules of taxation can also create incentives promoting desirable behavior and disincentives for unwanted behavior.

The main aim of this work is to put down the main rules for the complex system of the personal income taxation, to introduce steps for getting the figures in the tax return and to show the changes of the system, mainly in the last decade, after introducing various acts which were supposed to support the growth of the economy and effect with upcoming date of the sunset provisions of one of them.

¹ ROACH, Brian Taxation in the United States. In *The Encyclopedia of Earth* [online]. Washington D : Cutler J. Cleveland, 2006 [cit. 2010-12-05]. Available at WWW: <http://www.eoearth.org/article/Taxation_in_the_United_States>.

The system of this work is divided into four main parts. The role of the first part is to show the history of the taxation which led to the today's personal income taxation system, followed by second part with the explanation of system of the personal income tax of individuals, shown in details with the differentiated statuses of subjects, deductions, progressive tax brackets and tax credit for the taxpayers. The third part shortly describes personal income taxation system in the state of Maryland to show a different layer of the taxation system with its rules. The fourth part reflects the changes of the tax system in the last decade, which were brought by EGTRRA, with its affects on various groups of taxpayers and the effect on the economy of the country. These four parts together should create a picture of the system and its functioning of the personal income taxation in the United States of America.

2. HISTORY OF THE PERSONAL INCOME TAXATION IN THE UNITED STATES

The tax system of the United States has been through significant changes over the years, as it was responding to changing environment and changing role of government. The change is significant not only with comparison 100 years ago, but also 50 years ago. These changes have been many times response to historical events, changes in society, economy, wars over legal changes where one of the biggest was the passage of the 16th Amendment to Constitution by which the Congress was granted the power to levy a tax on personal income.

For a long time there was almost no contact of individual taxpayers with the Federal tax authorities in the USA, since the revenues were derived from custom duties, excise taxes and tariffs. There was almost no need for the colonial government to have bigger revenue, since each colony had greater responsibilities and thus greater revenue needs. States with different geographical location had different revenue needs.

What led England to impose series of taxes on the American colonies were its wars with France and its need for financial support. The first stroke of English parliament was the Stamp Act (tax on tea), first direct imposed tax on the American colonies. “No taxation without representation” was the main concern of the Americans which led to the American Revolution. Articles of Confederation, created and adopted during the revolution did not bring any nationwide tax system and relied completely on donations from the member states, which could levy tax in their territory according to their needs.

*„To lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States; but all duties, imposts and excises shall be uniform throughout the United States“*² stated the new Constitution from year 1789 as a power of the Congress, since the founders realized that to rely only on donations and decisions of the State governments is not a smart step toward creating a functional federation. Ten year period of first direct taxes appeared in the 1790’s and was imposed on the owners of houses, slaves, land and estates, abolished by Thomas Jefferson as a president.

² Cornell University Law School : Legal Information Institute [online]. 2002 [cit. 2010-12-05]. United States Constitution. Available at WWW: <<http://topics.law.cornell.edu/constitution/articlei>>

In the need of revenue for the Civil War, Revenue Act of 1861 was passed by the Congress and reestablished the former excise taxes and imposed a tax on personal income. The income tax had a flat rate of 3% imposed on all incomes above \$ 800 per year. Due to some ambiguity the taxes were reformed by the 1862 law which stated that to extent income exceeded \$ 600, it was taxed at the rate of 3%. Those earnings above \$ 10 000 per year we taxed at the rate of 5%. For the first time a variety of deductions were implied (e.g. losses, other taxes paid, rental housing, etc.) and the taxes were withheld at the employer. The original flat rate was repealed by this change. Changes came in 1872 when the income tax was abolished and then in 1894 enacted again as a flat rate, but quickly challenged by the U.S. Supreme Court as unconstitutional, since according to rules with other taxes, it was not apportioned according to the population on each member state.

The 16th Amendment of the constitution came with a change that allowed the Federal Government to impose tax on individuals without apportioning it among the states or based on census results. The Amendment was passed by year 1913 in all states and in the same year Congress passed a new law to make with more diversified structure, starting at 1% going up to 7% for people with income higher than \$ 500.000 per year. Form 1040 (used in a modified version also today) was introduced as a standard form for income tax filing. Another change brought by the Amendment was a change in relationship of individuals and government, by giving the government the right to know about individuals' economic life, which was later in year 1916 modified by keeping the tax return confidential.

World War I. came with a need of bigger revenue, to which was replied by Congress passing a 1916 Revenue Act with increasing the lowest tax rate from 1% to 2% and for income higher than \$ 1.5 million increased to 15%. By 1917, when the spending of the government got to its highest levels at that time, the highest tax bracket raised from mentioned 15% to 67%. Thanks to economy boom in 1920's the revenues were increasing and Congress allowed cut of the taxes several times, with the lowest bracket back to 1% and highest only to the rate of 25%. The following years, taxes were a tool for stabilizing the macroeconomic activity responding to the government needs and smoothing the effects, connected with wars and depressions on one side, and years of economic welfare on the other. In the years of wars and depressions, the tax burden was

usually on the level of 19%. Another big change made in 1945 was that the income tax was directly withheld at the employers, as it had been during the Civil War.

Another element that the tax policies had to deal with was the inflation, which was persistent and rising during the 1960's and 1970's, reaching its top in year 1979 on the rate of 13.3%. The effect of it was automatically and fast shifting taxpayers' income into a different tax bracket due to higher income, but also due to fixed exemptions, deductions and credits. Since the income tax was not indexed for inflation and marginal tax rates were high it led the economy to under-perform.

The situation led President Reagan to create Economy Recovery Act of 1981. The Reagan tax cut responded to the situation by a reduction of the tax brackets by 25% during following 3 years, lowering the top level tax bracket to 50%, and indexed the income tax for inflation. Unstable situation of economic boom following the recession brought the need of more fundamental tax change with effect of being more stable, simpler and fairer – passing of the Tax Reform Act of 1986 with decreasing the top statutory tax rate to 28% from 50%, number of the tax brackets were reduced and personal exemption and standard deduction amounts were increased and indexed for inflation. Also it shifted the main tax burden from individuals to businesses. Tax burden rose as a share of GDP from 17.5% to 18% in between year 1986-1990. As a reply to a persistent increase in government spending tax increase was imposed, and the sinusoidal wave occurring during the war years returned. The strong economic performance in 1990's, despite the higher taxes, low inflation and low interest rate, led to extraordinary Federal taxes share of GDP reaching 20.8% in 2000.

The President's Bush Tax Cut of 2001, the Economic Growth and Tax Relief Reconciliation Act, and all changes in the taxation system due to this act are explained in the last part of this thesis.

3. SOURCES OF THE UNITED STATES INCOME TAX LAW

There are various sources for United States personal income tax law. There are divided into three tiers:

Tier one:

- United States Constitution
- Internal Revenue Code (legislative authority, written by the United States Congress through legislation)
- Treasury regulations
- Federal court opinions (judicial authority, written by courts as interpretation of legislation)
- Treaties (executive authority, written in conjunction with other countries)

Tier two:

- Agency interpretative regulations (executive authority, written by Internal Revenue Service and Department of the Treasury),
- Public Administrative Ruling (IRS Revenue Rulings)

Tier three:

- Legislative History
- Private Administrative Rulings

4. STRUCTURE OF PERSONAL INCOME TAX

4.1. SUBJECTS OF FEDERAL PERSONAL INCOME TAX

Subjects of the federal income tax are divided into two main groups, and later divided into sub-groups. First division is between residents and nonresidents.

U.S. citizen is an individual born in The United States, Puerto Rico, Guam or U.S. Virgin Islands, an individual, whose parents are U.S. citizen and an alien who has been naturalized as a U.S. citizen. For tax purposes, U.S. national is an individual born in American Samoa or Commonwealth of the Northern Mariana Islands.

An alien can be treated as a U.S. citizen for the tax purposes once she passes the substantial presence test, which requires being physically present in the United States at least 31 days during the current year, and a sum 183 days during the last 3 year, including the present one and the 2 years immediately before that one. To get the final number, it is needed to add together all days present in current year, plus 1/3 of all days one year before the current year, plus 1/6 of the days present two years before the current year.

Nonresident is an alien considered to be engaged in a business or trade with the United States during the year or an alien without being engaged in a business or trade with the United States, but with U.S. income on which the tax liability was not withheld at the tax source.

Foreign Earned Income Exclusion is also possible for the residents, if they fulfill either Bona Fide Residence Test or Physical Presence test.

The resident can pass the Bona Fide Resident test, if she resides in the foreign country for entire tax year (January 1st – December 31st) without any interruptions. Brief vacations and trips to a different country, even United States, with an intention to return do not jeopardize the status. The person has to be a subject of taxation in a country where she is taken as a resident.

For a person to pass the Physical Presence Test in foreign country, she needs to reside in a foreign country (countries) 330 full-days in a 12 month period. Both business and

vacation travels in foreign country can count together. The only exception for both Bona Fide and Physical Presence tests is Cuba (not including Guantanamo Base), which does not qualify.

4.1.1. REQUIREMENTS TO FILE TAX RETURN

There are several conditions which determine whether a subject of the federal personal income tax should file a federal income tax return or not. It depends on gross income, filing status, age and whether being a dependant or not. Penalty applies if taxpayer obliged to file does not do so.

Filing status and gross income are explained in further paragraphs. For the filing requirements for each status please see Appendix no.1 - Chart no.1.

It is also a need to file an income tax return for decedent, if the person filing is her surviving spouse, executor, administrator or legal representative and the decedent was supposed to file the tax return according to the requirements mentioned at the time of death.

4.2. FILING STATUS

Filing status of a taxpayer determines filing requirements, which tax rates and standard deductions will apply to him/her, once she will be filing a tax return. It reflects in most of the cases a person's marital status on the last day of the tax year. There are five filing statuses:

- Single
- Married filing jointly
- Married filing separately
- Head of household
- Qualifying widow(er) with dependent child

4.2.1. SINGLE FILING STATUS

Person who is unmarried, legally separated or divorced at the end of the year is considered as single for the tax filing purposes and does not qualify for a different filing status. *“The IRS doesn't recognize couples living together, regardless of sexual orientation or state law, as being married for filing purposes.”*³ It is under the ruling of the state law to state whether person is married, legally separated or divorced.

As it is states in the Federal Defense of Marriage Act of 1996, marriage is a legal union between one man and one woman as a husband and wife, and the word “spouse” refers only to a person of the opposite sex who is husband or wife.

4.2.2. HEAD OF HOUSEHOLD FILING STATUS

„You can file as head of household if you are single or unmarried, paid more than half the cost of keeping up a home, and had a qualifying child or qualifying relative that

³ TYSON, Eric, MBA; MUNRO, Margaret A., EA; SILVERMAN, David J., EA. *Taxes 2009 for Dummies*. USA : Wiley, 2009. No Form Fits All, p. 41.

lived with you in the home for more than half the year."⁴ The benefits of this status are higher possible standard deduction and lower tax rates compared to filing as a single. There are many specifications, which specify the requirements for using head of household filing status for tax purposes. One of it is, that the taxpayer paid more than half of the cost of maintaining a home, where she has lived with the dependent or qualifying person. Dependent for the tax purposes is someone, who a filing person supports financially. A child can be the dependent only of at most one taxpayer for the tax filing purposes. If the child spends exactly the same amount of days with both parents, it can be claimed as a dependent by a parent with higher income.

4.2.3. MARRIED FILING JOINTLY

Married taxpayers can choose whether they want to file jointly with their spouse or separately. When filing under the married filing jointly status, couples can record their respective incomes, exemptions and deductions on the same tax return. A person is considered married if she is legally married on the last day of the year. In order to file jointly, both spouses must agree to file a joint return, both must sign the tax return, and both must accept the full responsibility for the accuracy and completeness of the information on the tax return. After sending the tax return, both spouses are responsible for the tax and any penalty or interest due, even if all income was earned by one of them. IRS can grant a relief from joint liability for taxes through innocent spouse relief, separation or by equitable relief.

If one of the spouses has significantly bigger income, filing jointly is the best option. But if both spouses work and the income and itemized deductions are unequal and big, it might be more reasonable to file separately. The biggest advantage of filing jointly is the tax saving. Tax brackets are designed to save more money when filing this way. Also it is possible to share the tax credits and tax deductions, and even some deductions are only possible when filing jointly. The disadvantages of such a filing are the

⁴ *1040.com* [online]. Drake Enterprises, 2010 [cit. 2010-12-05]. Filing Status. Available at WWW: <<http://www.1040.com/site/FederalTaxes/TaxFilingBasics/FilingStatus/tabid/213/Default.aspx#HOH>>.

mentioned responsibility and also the need to let the other spouse know the details of another's income.

If the spouse died during the year, the taxpayer is considered as married for the entire year, providing she did not remarry. The taxpayer has to report all income for the year and her spouse's income up to the date of his or her death. In the following year, the taxpayer can file as a surviving spouse, as head of household, or as a single taxpayer.

4.2.4. MARRIED FILING SEPARATELY

Married couples can also choose status married filing separately on their tax returns. It is advisable to file separately mainly in the case if the couple has two incomes and at least one spouse (preferably with lower income) has significant itemized deductions that are limited by adjusted gross income. The three most common itemized write-offs limited to adjusted gross income:

- medical expenses, deductible only to extent they exceeded 7.5% of adjusted gross income
- uninsured casualty losses (like hurricane damage on house, etc), which a person can deduct only if they exceed 10% of adjusted gross income
- miscellaneous itemized deductions, which are deductible only once they exceed 2% of adjusted gross income

Due to the above mentioned itemized deductions, the adjusted gross income can be lowered and therefore can lead to a tax saving results.

To file separately, the taxpayer has to be aware of the restrictions:

- if one of the spouses itemizes deductions, both spouses must do so, or both must claim standardized deductions
- the credit for qualified adoption expenses and earned income credit does not apply
- it is not possible to take credit for being elderly or disable unless the spouse has lived apart for the whole filing year
- first time homebuyer credit is reduced from \$ 7.500 to \$ 3.750.

- standard deduction is cut in half
- taxpayer is not eligible for any education credits
- deduction in the amount of \$ 5.000 for nonworking spouse is not applicable

Once the taxpayer files the married filing jointly return, there is no possibility to change. On the other hand, once a spouse has filed separately, the other spouse can file an amended return and switch to filing jointly.

4.2.5. QUALIFYING WIDOW / WIDOWER WITH DEPENDENT CHILD

If the taxpayer is unmarried because the spouse died within the last two years, has not remarried and has cared for a dependent for the whole year, she can file the tax return as a qualifying widow / widower. This status has the same standard deductions and tax benefits as when married filing jointly. The widow / widower can file joint tax return in the year when the spouse died, and for the following two years, while being qualified for the status, file qualifying widow / widower. If the person re-marries, she has to use married filing statuses. After two years of using qualifying widow status, the taxpayer has to change to either single or head of household status if remaining single.

Another requirement for the status is to have a child, stepchild, adopted child, or foster child, whom the person can claim as a dependent, and the child lived in the home of taxpayer for the whole year for which the filing is taking place.

4.3. TAX BASE

For the tax base in personal income taxation, it is considered to be the gross income which an individual earns. “Gross income is all income you receive in the form of money, goods, property, and services that is not exempt from a tax”. So all income of a taxpayer creates a base for modifications by which the tax assessment will be derived.

To get adjusted gross income, the trade or business expenses of individual that were paid out of the gross income have to be deducted. As explained in further paragraphs, “*personal deductions are subtracted from adjusted gross income in determining taxable income. A taxpayer may take either (i) itemized personal deductions or (ii) a standard deduction.*”⁵

Specific rules regarding the gross income apply in a community property states (Arizona, California, Idaho, Louisiana, New Mexico, Nevada, Texas, Washington, Wisconsin), where in the case of the married couples, half of any income defined by the state law as community income, may be considered as one of the partner’s income.

If a person is self-employed providing services, the gross income is considered to be all gross receipts. In a business dealing with manufacturing, mining or merchandising, from the gross income it is needed to deduct cost of sold goods from total sales in the business. To this figure it is added any income from investments or outside operations.

4.4. ADJUSTED GROSS INCOME & TAXABLE INCOME

Definition of adjusted gross income is in §62 of Tax Code, in the meaning that adjusted gross income is the taxpayer’s gross income from all sources minus the trade or business expenses. The described itemized or standard deductions and taxpayer’s personal exemptions are then subtracted from adjusted gross income to get the taxable income, which is described in §63 of the Tax Code:

⁵ BANKAMN, Joseph; GRIFFITH, Thomas D.; PRATT, Katherine. *Federal Income Tax : Examples and Explanations*. Fifth Edition. United States of America : Wolters Kluwer Law & Business , 2008. 587 p.

Taxable income defined

„ In general

Except as provided in subsection (b), for purposes of this subtitle, the term “taxable income” means gross income minus the deductions allowed by this chapter (other than the standard deduction).

Individuals who do not itemize their deductions

In the case of an individual who does not elect to itemize his deductions for the taxable year, for purposes of this subtitle, the term “taxable income” means adjusted gross income, minus—

(1) the standard deduction, and

(2) the deduction for personal exemptions.

For purposes of this subtitle, the term “itemized deductions” means the deductions allowable under this chapter other than—

(1) the deductions allowable in arriving at adjusted gross income, and

(2) the deduction for personal exemptions.”⁶

4.5. DEDUCTIONS

The US tax system is based on the idea that enrichment is the best way how to measure the extent to which a taxpayer should be bearing the costs of government. It is under the decision of Congress of the United States to decide what income figure should be taxed. At the moment, the general idea is that net figure is the only appropriate measure of the taxpayer’s income.

To get the right figure of net income, understanding as taxable income, there is a place for deductible expenses to be taken out of the gross income. A distinction has to be made between personal expenditures, which taxpayer chooses to make out of the wealth

⁶ *United States Code: Title 26, 63.* [online]. 2010 [cit. 2010-12-05]. Taxable Income Defined. Available at WWW: <http://www.law.cornell.edu/uscode/26/usc_sec_26_00000063----000-.html>

she has earned, and business expenditures, which the taxpayer made for earning gross income.

§ 162(a) and § 212 of the Tax Code set the deductions for all ordinary business expenses which are aimed to for profit-seeking purposes. It is being stressed that nothing is deductible unless that cost would support earning gross income. As indicated, Code § 162(a) it allows all deductions of “*all the ordinary and necessary expenses incurred during the taxable year in carrying on any trade or business*”⁷. Qualified expenses for itemized deductions include: business travel away from home, local transportation, entertainment, use of taxpayer’s home, education and other qualified miscellaneous expenses. When deducting, it is very important to put in front the fact of business expenses and not personal expenses. The expenses have to incur while the taxpayer is performing services as an employee, it must adequately account to employer for those expenses in a reasonable period of time, and the taxpayer has to return any excess reimbursements or allowances within a reasonable period of time. Taxpayer has to keep records to prove the expenses which want to be deducted.

The Tax Code also permits deductions that are solely personal character. It is possible to divide them into three categories. First category includes involuntary and unexpected expenses, which have a large, even exhausting impact on the taxpayer’s income. It includes large medical bills for a taxpayer or her family member – the capacity and ability of a healthy family to pay taxes would be much higher than of a family with a high medical bills. Another case is casualty losses, by which the taxpayer suffers reduction in personal loss, including also car or home. One of the main requirements to apply the deduction is that the loss was not reimbursed by insurance company. Second category is highly supported and encouraged by the Congress of the United States to subsidize. The best example is deduction for contributions to charity. Another example is the deduction for the homeowners for mortgage interest and local property taxes. This is done to encourage the home-ownership, since there are no deductions or tax preferences for tenants. Third category includes state and local taxes.

⁷ *United States Code: Title 26, 63.* [online]. 2010 [cit. 2010-12-05]. Trade or Business Expenses. Available at WWW: <http://www.law.cornell.edu/uscode/26/usc_sec_26_00000162----000-.html>.

4.5.1. ITEMIZED DEDUCTIONS

4.5.1.1. Medical expenses, casualty losses

The taxpayer can deduct bills for medical and dental expenses for herself, her spouse and dependants. Therefore the Code in article 213(d) sets what is included in the deductible medical care: *“The term “medical care” means amounts paid—*

(A) for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body,

(B) for transportation primarily for and essential to medical care referred to in subparagraph (A),

(C) for qualified long-term care services, or

(D) for insurance (including amounts paid as premiums under part B of title XVIII of the Social Security Act, relating to supplementary medical insurance for the aged) covering medical care referred to in subparagraphs (A) and (B) or for any qualified long-term care insurance contract.”⁸

As the general rule for deductions indicates, it is limited when the expenses are deductible, not to include expenses that are repeating throughout the year and can be planned by the family. It has to exceed 7.5% of the taxpayer’s adjusted gross income for the year. *“A medical expense deduction is allowed for cosmetic surgery if it is necessary to improve a disfigurement related to a congenital abnormality, disfiguring disease, or an accidental injury.”⁹*

Casualty losses permits deductions if there was a significant loss of a personal character because of theft, or if the property was damaged, and these damages were quick and unexpected. Also rule of a minimum % of adjusted gross income applies on casualty losses, at the level of minimum 10% in aggregate. The evaluation of the casualty loss is the value of the property before and after the casualty, but it cannot be more than the

⁸ SEIDMAN, J.S. . *Seidman's Legislative History of Federal Income and Excess Profits Tax Laws*. Clark, New Jersey : The Lawbook Exchange, Ltd., 2003. 1844 p.

⁹ J.K.Lasser Editorial. *Your Income Tax 2009*. United States of America : John Wiley & Sons, Inc., 2008. 816 p.

value of the property at all. “Under current law, a casualty loss deduction is permitted only to the extent that the loss is not reimbursed by insurance or otherwise.”¹⁰

4.5.1.2. Charitable contributions

“Contributions are deductible only if made to an organization – educational, religious, scientific, etc. – which the statute describes as an eligible donee.”¹¹

The Tax Code allows deductions up to a 50% limit of a taxpayer adjusted gross income. Discussion in the Senate preceded this decision. The generosity of the donation at one side is argued that the higher-income taxpayers have to have a border for the donations, so they do not put all their income to charity, lower their taxes to zero and live out of the savings. If the donation was bigger than mentioned 50%, it is possible to deduct the remainder in following 5 years.

4.5.1.3. Home mortgage interest

Before the revision of the Tax Code in 1986, for taxpayers who were itemizing their deductions, interest on all personal borrowings was deductible – loans for home appliances, vacation loan, credit cards, mortgages – there was no distinction in between personal or business character of the loan. The 1986 Act, added a specification, which allows all deductions for “personal interest”. But under the § 163(h) of Code, home mortgages are still allowed to be deducted as an itemized expense deduction. To be able to deduct the mortgage, the total amount of the mortgage can never exceed 1 million USD.

¹⁰ BANKAMN, Joseph; GRIFFITH, Thomas D.; PRATT, Katherine. *Federal Income Tax : Examples and Explanations*. Fifth Edition. United States of America : Wolters Kluwer Law & Business, 2008. 587 p.

¹¹ CHIRELSTEIN, Marvin A. *Federal Income Taxation*. Tenth Edition. New York : Foundation Press, 2005. 456 p.

4.5.2. STANDARD DEDUCTIONS

The standard deduction concept was introduced in year 1944 as an alternative to itemizing qualifying personal expenses. Standard deduction is a dollar amount, which can be subtracted by taxpayer who is not itemizing her deductions. It is based upon taxpayer's filing status. It is not available for nonresident aliens residing in the United States or dual-status aliens. On the other hand it is available for US citizen and resident aliens with status single, married persons, head of households and widows. But a married person cannot claim standard deduction once her spouse is itemizing deduction and they are filing separately.

There is a need to make a difference between standard deduction and personal exemption. Since it is not possible to take both standard and itemized deduction, the taxpayer usually choose the one which lower her taxes more. For the amounts of standard deductions see Appendix no.1 - Chart no.2.

4.6. EXEMPTIONS

Taxable income can be reduced by the amount of personal tax exemption on the tax return. Each personal exemption the taxpayer can claim on the tax return is the equivalent of \$3.650 (valid number for 2009 and 2010 tax year) tax deduction. It is allowed to have one exemption for the taxpayer, and if the taxpayer is married, one tax exemption for the spouse, and if having dependants, one for each dependant on the tax return. To be able to claim the exemption for spouse on tax return, the taxpayer has to be married on the last day of the tax year. Also regarding the child, it had to be born alive on or before December 31st, and all five exemption tests have to be met, to be able to exempt the amount. The five tests for tax exemption for dependent:

- Member of household - generally child, stepchild, adopted child, grandchild, great-grand child, son or daughter in law, brother or sister in law, parent, brother, sister, grand parent, step parent, stepbrother or sister, half brother or sister, and, if related by blood, uncle, aunt, niece or nephew. The above relatives do not have to live with the taxpayer. Also a member of the household, who lives with the taxpayer for the entire year.
- Gross income test – the dependant cannot receive more than \$3.650 of gross income, unless it is the taxpayer's child younger than 19 years old, or younger than 24 years old and full time student
- Support test – more than one half of yearly support must be from the taxpayer
- Joint return test – the taxpayer cannot file a joint return with her spouse, unless the tax return is filed only for the purpose of refund, when neither the child or spouse is required to file the return
- Citizenship test – must be a US citizen or national, or must be a resident of the USA, Canada or Mexico

To claim the dependency tax exemption for any child, the child has to have either social security number or a taxpayer identification number on the taxpayer's tax return.

The amounts deductible for personal exemptions have varied considerably and have been related to the marital and filing status. Since year 1917, family size was also taken into consideration, as per capita exemptions were recognized for "dependents". In addition, from 1948 until 1986, there were extra exemptions for people elderly or blind. In year 1987, this was replaced by additional standard deduction for these taxpayers. *"The personal exemptions and exemptions for dependents are slowly phased out for*

higher-income taxpayers."¹² Personal exemptions for year 2009 were reduced by 2% for each \$2.500 of Adjusted Gross Income over \$250.200 for married filing jointly, \$208,500 for heads of households and \$166.800 for singles, but the reduction cannot exceed \$1.217 per exemption.

4.7. TAX CREDITS

Tax credit lowers the amount that taxpayer is liable for. Tax credit directly reduces the liability, while the deduction reduces only the amount of the income which is subject of the tax. Tax credits are divided into two groups: refundable and nonrefundable. Most of the credits are nonrefundable, which means that the credit can lower the tax liability to zero. It is needed to have some tax liability to claim nonrefundable credit.

Nonrefundable tax credits:

- Child and Dependent Care Credit
- Education Credits
- Credit for the Elderly or Disabled
- Child Tax Credit
- Adoption Credit
- Foreign Tax Credit
- Residential Energy Credit
- Retirement Savings Contribution Credit

Refundable credit is a tax credit which can reduce the liability below zero, so the taxpayer can receive a refund.

Refundable tax credits:

- Earned Income Credit
- First-time Homebuyer Credit
- Excess Social Security Credit
- Additional Child Tax Credit
- Health Coverage Tax Credit

¹² CHIRELSTEIN, Marvin A. *Federal Income Taxation*. Tenth Edition. New York : Foundation Press, 2005. 456 p.

4.7.1. EARNED INCOME TAX CREDIT

Previously modest tax credit was largely expanded by the 1993 Act. It is a subsidy that reduces or eliminates the tax paid to low-wage working families. It is support for taxpayers who are willing to work even for the cost of low salary and have parental responsibilities at the same time, therefore it is for working people only.

For years 2009 and 2010 only, the American Recovery and Reinvestment Act increased the Earned Income Tax Credit for workers who have three or more qualifying children.

“Earned income and adjusted gross income must each be less than:

- *\$43,352 (\$48,362 married filing jointly) with three or more qualifying children*
- *\$40,363 (\$45,373 married filing jointly) with two qualifying children*
- *\$35,535 (\$40,545 married filing jointly) with one qualifying child*
- *\$13,460 (\$18,470 married filing jointly) with no qualifying children*

Tax Year 2010 maximum credit:

- *\$5,666 with three or more qualifying children*
- *\$5,036 with two qualifying children*
- *\$3,050 with one qualifying child*
- *\$457 with no qualifying children”¹³*

There are other certain requirements to claim the credit:

- The taxpayer has to have Social Security Number, the Taxpayer Identification Number is not enough
- The filing status has to be single, head of household, qualifying widow, or married filing jointly
- The taxpayer has to be a U.S. citizen living in the U.S.A for more than half a year and cannot have foreign earned income
- The investment income must be less than \$3.100

¹³ *Earned Income Tax Credit* [online]. 2009-12-28 [cit. 2010-12-05]. Tax Year 2009 and Preview Tax Year 2010. Available at WWW: <<http://www.etc.irs.gov/central/Preview2009/>>.

- The taxpayer must not be qualifying child of another person or a dependent of another person
- The taxpayer must be at least 25 years old and under 65 years old

The main intention of personal income tax is to collect revenue for functioning of government. Earned income tax credit has the opposite effect, since it is redistributing subsidies to people just because they work. So questions are being raised about the effectiveness of the system and the credit.

4.7.2. CHILD AND DEPENDENT CARE CREDIT

Child and Dependent Care Credit is based on a expenses incurred for a care for children or qualifying person. *“Since 1954, however, the Code has permitted working couples (and single parents) with dependent children to take a limited nonrefundable credit against tax for child care and housekeeping expenses.”*¹⁴ The support is for parents or caretakers to enable them work or seek for employment. It is important not to mix it with deduction as business expenses. The amount of the credit is a percentage of the amount paid for care and housekeeping expenses.

Person or organization who is providing the care must be identifiable. Since it is also possible that individual can be care provider, her Social Security Number or Taxpayer Identification Number has to be indicated. But there is a phase-down rule which applies. An employed taxpayer can apply for a credit against tax of 35% on \$ 3,000 if she has one qualifying child or dependent, and on \$ 6,000 if she has two or more. So the maximum credit taken is \$ 1,050 for one child or dependent and \$ 2,100 for two or more. The phase-down of the credit applies, when the adjusted gross income is higher than \$ 15,000. For every \$ 2,000 above \$15,000, one percent is taken down, but it can go never lower than 20%.

¹⁴ CHIRELSTEIN, Marvin A. *Federal Income Taxation*. Tenth Edition. New York : Foundation Press, 2005. 456 p.

4.7.3. CHILD TAX CREDIT

Child tax credit reduces the tax liability for families, who make less than \$130,000. The full credit is limited to \$1,000 per child, with phase-out starting at modified adjusted gross income of \$110,000 for married filing jointly, \$75,000 for single taxpayers, head of households and widow(er), or \$55,000 for married filing separately. The reduction is 5 cents for every dollar over the mentioned limits. Since the rates for phase-out remain the same in 2010 as were for 2009, it is more likely that more families will not receive the full credit, because the inflation is not reflected in the rates. For few families, the credit might be higher than the tax liability, so it can become refundable as an additional child tax credit, assuming that several circumstances were fulfilled. The credit was increased from \$400 in 1998 to \$1,000 for year 2010, but debates are shifting the credit back down to \$500 for taxation year 2011. The credit cannot be bigger than the total tax liability, so it has to be reduced to maximum of the tax liability when filing the tax return form. If the credit is claimed by more than one parent of the child and they are not filing jointly the tax return, the child will be treated as a qualifying child of that parent, with whom she resided more of the time, and if the time is equal for both parents, then the child is qualifying for a parent with higher adjusted gross income.

4.7.4. EDUCATION CREDITS

There are two types of education credits The American Opportunity Credit and The Lifetime Learning Credit. *“The two credits are allowed to the taxpayer who pays the bills – the student herself, the student’s spouse, or the student’s parents if the student is a dependent.”*¹⁵ The whole system of education incentives was introduced by Tax Relief Act of 1997.

The American Opportunity Credit, introduced in tax year 2009, is an improvement of previously known Hope Credit. It expands the possibilities to get the credit, covers not two years of education as Hope Credit did, but four years of education, course materials

¹⁵ CHIRELSTEIN, Marvin A. *Federal Income Taxation*. Tenth Edition. New York : Foundation Press, 2005. 456 p.

are also qualifying expenses, increases the amount of the credit and is also available to those who owe no tax. The American Opportunity Credit is limited per student basis. Now, the credit is worth up to \$2,500, comparing to the previous one of \$1,800. The credit is refundable to 40% of its value, so up to \$1,000. The credit is available to people with adjusted gross income lower than \$90,000, starting to phase-out at the level of \$80,000. For married filing jointly, the limit is \$180,000, starting to phase-out at the level of \$160,000. The amount claimed as a credit is 100% of the first \$2,000 of qualified expenses of the student, and then 25% of each next \$2,000, maximum to \$2,500.

The Lifetime Learning Credit is designated for students, who study at post-secondary education but are not eligible for American Opportunity Credit. It is up to the student or taxpayer, to choose which credit to take, depending which can bring a higher tax benefit. But the Lifetime Learning Credit is limited one per household, and one taxpayer cannot claim both in one tax year. *“The Lifetime Learning Credit can be claimed for an unlimited number of taxable years and is available for graduate as well as undergraduate tuition and fees.”*¹⁶ The maximum of credit is \$2,000 per year for all students in one household. The amount is set to maximum \$2,000 as mentioned and shows the 20% of first \$10,000 paid for the education. It is available for taxpayer if her modified adjusted gross income is lower than \$60,000, starting to phase-out at \$50,000, for married filing jointly the phase out starts at modified adjusted gross income of \$100,000 and are eligible up to \$120,000 of income.

¹⁶ CHIRELSTEIN, Marvin A. *Federal Income Taxation*. Tenth Edition. New York : Foundation Press, 2005. 456 p.

5. ALTERNATIVE MINIMUM TAX

Alternative minimum tax (AMT) has its place in the United States income taxation. It is possible to say that it is a parallel taxation system with the regular income taxation, or also called second tax system. The AMT was introduced in year 1969 by the Tax Reform Act, and got into usage in 1970. *AMT was originally aimed at a relatively small number of high income individuals exploiting tax preferences of various kinds to minimize their tax liabilities.*¹⁷ It was intended to target 155 high-income households, which were claiming so many tax benefits that they owed little or no income taxes at all. AMT was originally aimed for relatively small group of high-income families and individuals, abusing tax preferences of various kinds, just to decrease their tax liability. The income brackets were not prepared for the inflation, so as the income rose in years, AMT was effective for more and more taxpayers, getting to the middle class as well. This was not envisioned by Congress at the time of enacting the AMT. Taxpayers now, have to compute their tax under regular tax system as well as under AMT, and the taxpayers are liable for the one, which is higher amount to pay.

The difference between regular federal income tax and AMT is that AMT has in general wider definition of taxable income, personal and dependency exemptions are added to computing AMT, but the AMT exemption amounts do not reflect the number of dependent children of the taxpayer. Also if a taxpayer is a subject to AMT, some of her itemized deductions are eliminated, so the tax increases. For example medical expenses are able to be deducted only if they exceed 10% of adjusted gross income, and home mortgage interest deduction is only possible to the amount of interest on purchase money mortgages for a first and second residence. State, local and foreign taxes are not deductible.

AMT is nearly a flat tax, comparing to the regular income tax system. The similarity with regular system is that rates and exemptions vary with the filing status.

For the figures of Alternative Minimum Tax amounts for 2009 see Appendix no.1 - Chart no.3.

The AMT has gone thru significant changes during the time, mainly in years 1978, 1982, 1986, 1990, and 1993. The most significant was in year 1982, which we can call a

¹⁷ CHIRELSTEIN, Marvin A. *Federal Income Taxation*. Tenth Edition. New York : Foundation Press, 2005. 456 p.

base for the today's AMT. Further changes were made in year 1986, including many definitional changes.

*„But in 1986, when President Ronald Reagan and both parties on Capitol Hill agreed to a major change in the tax system, the law was subtly changed to aim at a wholly different set of deductions, the ones that everyone gets, like the personal exemption, state and local taxes, the standard deduction, certain expenses like union dues and even some medical costs for the seriously ill. At the same time it removed and revised some of the exotic investment deductions. A law for untaxed rich investors was refocused on families who own their homes in high tax states.“*¹⁸ It was not in the news, since the former act affected only small percentage of the taxpayers. But after the change, \$1.7 billion was raised in the first year of 1986 Act.

Determining whether one is subject to the AMT can be difficult. *“According to the IRS's taxpayer advocate, determining whether someone owes the AMT can require reading 9 pages of instructions, and completing a 16 line worksheet and a 55 line form”*¹⁹. It is needed to file form 1040 for regular income tax and also a Form 6251.

¹⁸ JOHNSTON, David Cay. The untaxed rich, found and then lost. *New York Times* [online]. March 7, 2007, 66, [cit. 2010-12-05]. Available at WWW: <<http://www.nytimes.com/2007/03/04/weekinreview/04johnston.html>>.

¹⁹ National Taxpayer Advocate : 2006 Annual Report to Congress. In *National Taxpayer Advocate* [online]. United States of America : Internal Revenue Service, 2006 [cit. 2010-12-05]. Available at WWW: <http://www.irs.gov/pub/irs-utl/2006_arc_vol_1_cover__section_1.pdf>.

6. TAX BRACKETS

In the United States, as in most countries, individual income tax taxes its taxpayers using the tax brackets system. *“The overall system of taxation in the United States is progressive. By a progressive tax system, we mean that the percentage of income an individual (or household) pays in taxes tends to increase with increasing income.”*²⁰

The tax brackets have changed with time since 1913, when they were introduced. The top rate in 1913 was 7% and during the World War One the top rate rose all the way to 77%. The most outstanding value of the tax brackets was in year 1954, when there were 24 different income brackets, ranging from 20% to 91%.

As of 2008, there are six brackets for personal taxable income, ranging from 10% to 35%. As mentioned in previous sections, US taxpayers are not taxed on every dollar they make as they are allowed a standard deduction or an itemized deduction if the amount of the itemized deductions together is higher than the standard deduction.

For year 2010, brackets include a very low inflation rate for year 2009 in the United States, which was only at the level of 0.19%, comparing to 4.26% in year 2008. The cause of such a low inflation in year 2009 is the global economic recession, low gas prices which extensively affect United States economy, the depressed consumer spending and much higher unemployment rate than in previous years. As a result, many brackets remain the same for year 2010 as they were in 2009, with only slightly changes.

For tax brackets for tax years 2009 and 2010, please see Appendix no.1 - Chart no.4 and no. 5.

²⁰ ROACH, Brian Taxation in the United States. In *The Encyclopedia of Earth* [online]. Washington D : Cutler J. Cleveland, 2006 [cit. 2010-12-05]. Available at WWW: <http://www.eoearth.org/article/Taxation_in_the_United_States>.

7. HAUSER'S LAW

Hauser's law shows that federal tax revenues (both personal, corporate and social security) in the USA will always equal to 19.5% of GDP, not changing with the changing top brackets. The idea was firstly said by an investment economist Kurt Hauser from San Francisco, who said: "*No matter what the tax rates have been, in postwar America tax revenues have remained at about 19.5% of GDP.*"²¹ In year 2008 Wall Street Journal published a graph, which proved the Hauser's law, because they were comparing rates between years 1950 and 2007, between different highest values of the brackets between 28% and 91%. There was a question asked to Mr. Hauser, what happens if the taxes raise, he replied: "*Raising taxes encourages taxpayers to shift, hide and underreport income. . . . Higher taxes reduce the incentives to work, produce, invest and save, thereby dampening overall economic activity and job creation.*"²²

It was interesting, that a year after publishing the graph in the Wall Street Journal, the tax revenues got only to 15% of the GDP, which is the lowest value in the last 50 years, which is being explained as an effect of recent world economic recession. Of course, there are opponents of this law, who mainly argue that the components of tax revenue, should not be taken together as one, because for example the percentage of corporate income taxes went rapidly down, while the social security went up.

²¹ HAUSER, W. Kurt. *Taxation and Economic Performance*. Stanford University, USA : Hoover Institution on War, Revolution and Peace, 1996. 34 p.

²² The same

8. MARYLAND PERSONAL INCOME TAX

8.1. State personal income taxation

Income tax may be imposed on taxpayers also by individual U.S. states and is added on top of the federal tax. Depending on how much the taxpayer earns and where she lives, part of her income belongs to state government. The biggest income from all taxes to the states' governments is the personal income tax (in the states where the state personal income tax is imposed). In addition to the state tax, local tax may be levied as an additional income tax. Fortunately, both state and local income taxes are deductible for federal tax purposes. Seven states have no state income tax: Florida, Alaska, Nevada, Texas, Washington and Wyoming. Tennessee and New Hampshire impose income tax only on dividends and interest income. There are not the same brackets for all other states, and the tax does not have the same graduation. Eight states: Colorado, Illinois, Indiana, Massachusetts, Michigan, New Hampshire, Pennsylvania and Tennessee; impose single tax rate for all taxable income. In some states, the state personal income tax is imposed on very low income, starting with \$3,000 in Alabama and discussed Maryland. In two states, Connecticut and Mississippi, the difference between the lowest and the highest tax bracket is only 2%. Credits and deductions applied to the income tax lead the tax system to progressivity.

8.2. Maryland Tax Environment

Maryland's personal income tax system includes eight separate brackets with a top rate of 6.25%, which is applied on an income higher than \$ 1 million. Among the states which levy personal income tax on their citizens, Maryland is ranked as 20th highest nationally. Collections of personal income in year 2006 were in the amount of \$ 1.762 per person, which was the 2nd highest in the United States. For the 2010 Maryland income tax rates, see Appendix no.1 - Chart no. 7.

Tax freedom day comes in Maryland on April 19th, both for years 2009 and 2010. Tax freedom day means that Americans have earned enough money to pay off their total tax bill for the year. Maryland is ranked 5th nationally. The neighboring states of Maryland

ranks as follows: Delaware, April 11th (ranked 20th); Pennsylvania, April 14th (ranked 11th); West Virginia, April 1st (ranked 45th); and Virginia, April 16th (ranked 6th).

Comparing Maryland with its most connected neighboring states Virginia and Washington D.C., Maryland taxes its lower and lower middle income families more than Virginia, while Virginia on the other hand taxes its taxes its middle, upper middle and upper income families more than Maryland. District of Columbia taxes its taxpayers higher in every filing status.

With an example of low income family with a yearly income of \$ 20,000, in Maryland would the family pay \$ 562 in personal income tax, comparing to Virginia with an average of \$ 410 and Washington D.C. with a tax burden of \$ 896 which is the leading number of the whole United States of America. The national average of that family would be \$ 285.

Comparing lower middle income families toward middle income, defined in the category of income between \$ 25,000 and \$ 45,000, the highest personal income tax would be on the burden of taxpayers from Washington D.C. The number \$ 2,078 is with a gap in front of Maryland with \$ 1,236 and Virginia \$ 1,166. All this numbers seem up in the clouds comparing with the national average of \$ 875.

High income families which are to compare in the considered states comes to very similar number, with \$ 2,287 in Virginia and \$ 2,194 in Maryland. Washington D.C. even enlarges its tax burden in category of \$ 45,000 - \$ 65,000 taxing at the amount of \$ 3,886.

In even higher category, Virginia surpasses Maryland due to different tax policies.

The Maryland state income tax deadline falls on April 15th every year, as well as for the federal income tax returns.

8.3. Maryland Residency

The taxpayer is considered as a legal resident, if she was domiciled in Maryland on the last day of the taxable year or has a place to live in Maryland state and was present there for more than six months of the year. The residency always has to be considered together with the above mentioned condition for filing state return. If the taxpayer has lived in Maryland only for part of the year, shorter than 6 months, she might be required

to file a different tax return (502), but still pay Maryland's income tax. But still according to some other states, taxpayer might be required to pay income tax also in a state of her residency, applied according to the first rule.

If a taxpayer lives in Maryland, but works in Virginia, Pennsylvania or Washington D.C., she is still a resident in Maryland and has to file the return there. Different situation is when a person residing in Maryland works in Delaware. She has to file returns for both states, but can get a credit for tax paid in Delaware while filing special form (502 CR) together with standard Maryland personal income tax return.

Even nonresidents have to file tax return in Maryland (form 505) in certain cases, when the income of the taxpayer is derived from: permanently located tangible property which may be real or personal in Maryland; a profession or occupation, trade or business undertaken in Maryland; and winnings from gambling derived from Maryland sources, mainly from Maryland state lottery.

If the taxpayer on the other hand works in Maryland but is a resident of a West Virginia, Washington D.C., Virginia or Pennsylvania, all reciprocal tax states, the taxpayer can be an exempt from Maryland withholding.

Nonresidents who work in Maryland and cannot be exempt according to the rule before, are subject to the tax bracket appropriate according to the Maryland income tax rate for her income level, as well as to the special nonresident tax rate.

8.4. Requirements to file Maryland tax return

It is required for a person to file a tax return, if she is a Maryland resident, required to file federal tax return and the Maryland gross income is equal or exceeds the minimum amount for her filing status to file tax return. Special requirements apply to taxpayers who are non-residents, but are still obliged to pay Maryland personal income tax.

When a person does not fulfill requirement to file federal tax return, she might still have the duty to pay state income tax, when modifications added to person's gross income exceeds the filing requirements for the filing status. It is important to use both additions and subtractions into account.

8.5. Filing status

The same rules apply to the filing status at the state level as at the federal level; the division of the status as well as the requirements for each status.

The requirement to file a state personal income tax return is set to a minimum gross income, which changes every year and is issued by the state tax authority for every tax year. To see the figures for the requirement to file a state personal income tax return, see Appendix no.1 - Chart no. 6.

8.6. Personal Exemptions

Taxpayer of personal income tax in Maryland can claim the same exemptions on Maryland tax return as on the federal return, but the amount is different than on the federal level. If the taxpayer does not have to file a federal return, but has to file Maryland return, the exemptions are similar as they are on federal level. The exemption is valued at \$ 3.200 for every single exemption, for the taxpayers who have adjusted gross income up to \$ 100.000 and \$ 150.000 for filing jointly, for which is eligible the taxpayer on the federal return.

8.7. Child and dependent care expenses

There are two separate benefits that Maryland state taxation offers regarding the child or dependent care. Subtraction and tax credit. As indicated before, subtraction reduces the taxable income and tax credit reduces the amount of the tax that is owed to taxation authority.

The amount of the subtraction is calculated in the same way as for the federal return, and from the actual child or dependent care expenses is possible to subtract up to \$ 3.000 for one child and \$ 6.000 for two or more children.

Tax credit, if eligible for at the federal level, is available for the taxpayer also at the state level in Maryland. The credit starts at 32.5% of the federal level of child and

dependent care credit. The credit is phased out for the taxpayers with higher federal adjusted gross income than \$20,500 or \$41,000 for filing jointly if married. The ceiling for the credit is adjusted gross income of value \$25,000 or \$50,000 for married filing jointly. There is no affect of child care credit on the subtraction of child care costs.

9. ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT (EGTRRA)

Economic Growth and Tax Relief Reconciliation Act was passed in June 2001, but different affairs were forgone the Act and shifted it into direction in which the Act took place. One of the things was a recession, which arrived to United States in year 2001.

9.1. Recession of 2001

This recession differed from all other recessions in several ways. It was quite mild in terms of associated contractions in consumptions and output. Another way was that even though the total hours worked fell sharply, the productivity of labor was remaining at relatively high level. Furthermore, the fixed investment was sinking rapidly, even more than in a typical economic recession, the investment of individuals and purchase power of durable goods remained, despite the recession, strong. It was very unusual process of the recession, usually the investment of individuals into durable goods decrease or even collapse, often leading to impact on the economy for several quarters.

Another fact that was effecting the recession in 2001 was the presidential election in 2000, where the two candidates were coming crucially different approach to taxation and therefore the solution for the recession. While the democratic candidate promised tax cuts that would leave the tax brackets without any essential changes, and presented the tax cuts mainly in a way of tax credits for particular economic activities, the republican candidate George W. Bush presented that the income tax rates would be reduced across all income brackets.

The outcome of the presidential election in year 2000 promised to have a large impact on the tax rates that household and businesses would face in the coming future. *“At the time, Mr. Bush and the Republican leaders of Congress believed they were rewriting the*

tax code permanently, but the laws they passed actually gave the cuts an expiration date of the end of 2010."²³

Cutting individual income taxes was a major priority, promoted both to stimulate the economy and to simplify the tax system.

9.2. Sunset provisions

The EGTRRA was enacted under the reconciliation rules, which meant that the provisions were scheduled to sunset the latest at the end of year 2010. Until the beginning of December 2010, there was no subsequent legislation passed, which would extend the provisions past 2010. One of the first questions arises here and that is the effect on taxpayers and on the recession, once the Act was passed only as a temporary one. *“Individuals respond more strongly to a permanent federal tax rate reduction or other permanent tax incentives than to a temporary federal tax reduction or a federal tax rebate. Thus, the duration of a federal tax reduction affects how much it can stimulate the economic growth.”*²⁴

The administration of president Bush has argued for the exclusion of the sunset provisions included in the Act. The administration stated that it was a way how to increase certainty and mainly, the effectiveness of the tax cuts. The great uncertainty existed from the decrease in revenues and increase of the spending, which have produces the great deficit of the country's economy. The believe in and certainty of the taxpayer and national spenders is not increased, once they see the tax cuts are unsustainable and are changing dramatically under short period of time.

²³ *The New York Times : Times Topics* [online]. 2010 [cit. 2010-12-05]. Bush Tax Cuts. Available at WWW: <http://topics.nytimes.com/top/reference/timestopics/subjects/t/taxation/bush_tax_cuts/index.html>.

²⁴ SAXTON, Jim THE EFFECTS OF THE DURATION OF FEDERAL TAX REDUCTIONS: EXAMINING THE EMPIRICAL EVIDENCE. In *Joint Economic Committee* [online]. Washington, DC : United States Congress, February 2002 [cit. 2010-12-05]. Available at WWW: <<http://www.house.gov/jec/tax/duration.pdf>>.

9.3. Changes by EGTRRA

“The EGTRRA saved taxpayers about \$1.35 trillion over that 10 year period”²⁵. It is disputable, and it will be discussed later, who did profit the most on the Act.

The main regulations of EGTRRA brought in force:

- Reduced income tax brackets and steepened the progressivity of individual tax rates. A new 10% bracket was created for single filers with income up to \$6,000, joint filers up to \$12,000, and heads of households up to \$10,000, and
 - 15% bracket's lower threshold was indexed to the new 10% bracket;
 - 28% bracket was lowered to 25% by 2006;
 - 31% bracket was lowered to 28% by 2006;
 - 36% bracket was lowered to 33% by 2006;
 - 39.6% bracket was lowered to 35% by 2006.
- Child tax credit was doubled from \$500 to \$1,000 per child
- Eliminated the so-called “marriage penalty” and gave a married couple filing jointly a standard deduction twice the amount of a single filer. Also EGTRRA adjusted tax rates for joint filers to remove the penalty.
- Provided greater tax deductions for education expenses and savings.
- Increased the amount of tax deductible contributions the taxpayer could make to IRA accounts.

The main aim of the administration of that time was the intention to uplift the ailing economy partially through the reduction of the marginal tax rates, which was supposed to put more money into hands of American taxpayers. The recovery of American economy was planned to be done by increasing the purchasing power and consumer confidence of the taxpayers. The results of the tax cuts did not meet the main aim.

²⁵ AMADEO, Kimberly. *About.com : Impact of EGTRRA on the U.S. Economy* [online]. 2010 [cit. 2010-12-05]. Economic Growth Tax Relief Reconciliation Act . Available at WWW: <<http://useconomy.about.com/od/fiscalpolicy/p/EGTRRA.htm>>.

9.3.1. TAX BRACKET CHANGES

*“Under current law, the 25%, 28%, and 33% individual income tax brackets expire at the end of 2010. Upon expiration, the rates become 28%, 31% and 36% respectively.”*²⁶

The most discussed change was the division of 15% tax bracket into a new ten per cent rate bracket. Although the rate was a base for a creation of a new tax rate for personal income taxation, the 15% bracket did not receive rate reduction that increased over the time, as did the bracket of 28%, 31%, 36% and 39.6%. The four mentioned brackets received a one percentage point reduction in years 2001-2003, another one point reduction in 2004-2005 and a final point reduction in year 2006. The highest bracket rate received not one percentage point reduction in the final stage in 2006, but by 2.6%, which meant the total reduction from 39.6% to 35%. If this was applied also to the 15% bracket rate, it would lower down to 10.5%. The tax cuts provided therefore greater benefits for the top bracket than for the newly created lowest tax bracket of 10%. One of the main questions of EGTRRA arises here and that is for whom was the act mainly passed. Not only this question goes along with the act, but also questions of profitability for different social groups as well as the reality of support and boost for the economy.

²⁶ TURNER, Trish. *FoxNews.com* [online]. December 02, 2010 [cit. 2010-12-05]. Key Senate Democrat Unveils Middle Class Tax Bill . Available at WWW: <<http://politics.blogs.foxnews.com/2010/12/02/key-senate-democrat-unveils-middle-class-tax-bill>>.

9.4. Equality of the tax cuts

The act was enacted mainly to increase spending of the American families, and also by creating the ten percent tax rate, to increase spending of the lowest income families. The president showed in the perspective of the new act, that it will bring a reduction of about \$1.600 to the average family. The plan was made as a stimulus and a marginal rate reduction for low-earning taxpayers, because they would receive the income tax cut, increased child credit, marriage penalty reduction and the charitable contribution increase. The president, despite the fact he was a republican, and to get approval of both parties, argued that the distribution was fair, because the greatest percentage reduction went to low-income families. This became the major issue of the whole EGTRRA. The fairness claims met with a resistance on the left and became a crucial political issue. The proclaimed biggest tax cut for low-income taxpayers and mainly families were overridden by a factual thing of money. The biggest amount of the tax cuts by dollar amount went to the wealthy taxpayers.

Another equity issue arose with the provisions to phase-out the overall limitations on itemized deductions. The phase-out was done in three stages, first one took place in years 2006 and 2007, followed by a second one in years 2008 and 2009, and with the final after December 31, 2009. The limitation or cutback adjustment began only with person with high adjusted gross income, so they could itemize even more. This was obvious that only taxpayers with earnings in excess of the stated adjusted gross income limit could benefit from this repeal. Additionally to this, also the same rule applied to a phase-out of restrictions on personal exemptions. This also directed the benefits of the tax cuts to the higher-income families. After consideration of these two so-called benefits for all taxpayers, it was even harder to persuade the opposing Democratic party, that the EGTRRA was aimed to help all taxpayers and stimulate the whole economy.

9.5. Distribution of wealth

The structure of the tax brackets has a big impact on the distribution of wealth in the United States. The tax cuts were therefore a big interference in the wealth distribution. From the *Urban – Brookings Tax Policy Centre Microsimulation Model from end of year 2002* it is visible, that almost half of distribution of income tax change go to the top twenty per cent of the taxpayers, with less than one per cent to the lowest incomers. This shows the big difference on what amount of income goes to which group. And this does not add up the idea of the equality to the EGTRRA provisions. From reading between lines, even though president Bush tried to impact in good all incomers and taxpayers, it was not really possible when looking at the wealth distribution among different groups.

Here again comes the argumentation, that to impact more lower-income families, it should have been done by a different and more direct process of wealth distribution to the specific income groups. According to the above mentioned facts in this paragraph, the cuts only failed to give equal treatment to lower-income taxpayers. This tax cut was distributed neutrally among all groups, and does not change the distribution of wealth once there is the same percentage change in after-tax income.

*“If the intent was to increase spending, the cuts do not seem to distribute resources efficiently, given the fact that lower income households are more likely to spend a greater percentage of their income.”*²⁷ People with higher income value their consumption more than lower incomers who must consume most of their income in the period they receive their money. Thus, money rebated to lower incomers would result in higher percentage increase in consumption than if they would be rebated to the higher-incomers. *“With the current distribution, the tax cuts will likely have a small effect on economic growth in the short term.”*²⁸ Again the question of equality arises, since at the same cost in the lost revenue, the government could have received much greater benefit

²⁷ BOEER, Matthew; DR. EARLY, Dirk Individual Income Tax Rate Structure Changes. In *Effects of EGTRRA* [online]. Texas, United States of America : Southwestern University, April 21, 2004 [cit. 2010-12-06]. Available at WWW: <<http://people.southwestern.edu/~earlyd/public/boeer.pdf>>.

²⁸ WILLIAM, Gail; SAMARA, Potter. *The Bush Tax Cut: One Year Later*. United States of America : The Brookings Institution, 2002. 101 p.

from allocating a larger portion of the tax cut to the lower income taxpayers. The efficiency is questioned as well as the equality of the EGTRRA cuts.

One attempt of the Bush administration, how to distribute the wealth among the lower income groups, was by sending a check from government to many taxpayers, who got to the new ten percent bracket by the retroactive Act. The main aim of the administration was to boost the economy with immediate effects on personal expenditures, since the money were injected fast into the economy.

This first attempt to stimulate the economy straight forward and starting with the lowest income families directly in year 2001 could provide a picture of equal distribution of the wealth, equality of the tax cuts for all tax bracket rate, even it could have looked more in favor of the lower income taxpayers and voter, and to quiet down the Democratic party at the beginning of the whole decade of the tax changes. But unfortunately for the Democrats, this was only a one time action. Also unfortunate for the spending, it did not provide a sustaining stimulus for the lower income families to increase their spending. The effect of this one time action was a minimum raise in the expenditures, equal to only 0.1% raise in personal consumption expenditures, even though the disposable personal income was increased by almost 2%. The ten percent tax bracket relief was only immediate relief for many taxpayers, giving the Bush administration face of a fair distributor of wealth. The benefits for the wealthier taxpayers were coming into affect much later, what arises question, whether it was not too late to stimulate the whole economy. Again this shows the main benefit of the EGGTRA act going to wealthy disproportionately. The reasons show that neither the equitable benefits nor the distribution of wealth were in favor of the proclamations and goals of the administration.

9.6. Working time effect

Another aim, besides boosting the economy, was increase in hours worked by the taxpayers. Since the income was taxed less, it would add value to each dollar earned than before the tax cuts. The main idea of the creators of the tax cuts was that by giving the people more out of their wages and salaries, it would be a good motivation for them to work. And by earning more net money, they would spend and invest more, and therefore it would boost the economy of the country. The logical explanation of administration would be that the increased salary would increase the opportunity cost of the leisure time as the taxpayers would have to give up higher wages for every hour they would not be at work. Based on this, the taxpayer should have decreased their time at leisure and increase the number of hours worked, to get as much as possible of the lower taxed income. The idea of administration did not meet fully with its intention.

Another effect that the tax cuts could bring was the income effect on leisure taken. Since the taxpayer was earning more, he was able to take out more leisure, as well as higher consumption of other goods, and still earning the same income as they were before the tax cuts. This effect would not be the desired state of the effect of the tax cuts on hours worked, but it might have pumped the economy with a brief more spending for the leisure and for other goods.

So there were two different effects of the tax cuts on the hours worked, and looking at the results of both, it has achieved at least a small success looking at the tax cuts from this point of view. It has created the effect of two different groups taking advantage of the tax cuts. *“Some estimates place level of work increase at 0.5% more hours by the year 2011.”*²⁹ The increase does not show a big increase of the hours worked as it was one of the main aims of the administration when creating the Economic Growth and Tax Relief Reconciliation Act of 2001.

²⁹ WILLIAM, Gail; SAMARA, Potter. *The Bush Tax Cut: One Year Later*. United States of America : The Brookings Institution, 2002. 101 p.

9.7. Fiscal effect

Initially, EGTRRA has done well in stimulating the economy in recession in year 2001. The spending has increased for a while, people were considering working more in spite of the fact that they could get more out of one dollar earned, and also started saving more. Unfortunately, this was the first effect, which did not last as long as it would be wanted by the administration which put the tax cuts into practice.

Following that, EGTRRA has hurt the economy more dramatically by decreasing the government revenues by more than it was expected. The yearly annual deficit was increasing every single year, and therefore the debt of the United States.

Here arises another important question of the EGTRRA and its effect. By sunset provisions, it was set that the taxes are to expire by the end of year 2010. The tax cuts were increasing the national debt every year, but on the other hand were boosting the economy at least in some ratio. The economy got to relatively good condition in year 2004. It might be said that the taxation system and the spending connected together got to its peak. The lower taxes were pushing consumers to spend more, not really being able to assess the real value of the money they were spending and even borrowing.

One would say that the Bush`s administration could have recognized the peak of economy and analyze the future traps of the foregoing economy. Would not it been better if they sacrificed the coming years of EGTRRA provisions, which were anyhow to affect mainly the higher income taxpayers and let the provision sunset in year 2004? The effect of doing so would probably have lower impact on the economy than supporting the taxpayers to spend, even much more than they were able to earn, and lead this whole situation to the housing boom, which led directly or indirectly to the Great Recession of year 2008 and following.

When looking at the state of economy of the United States of America, while the Bush administration has strong ability to manage the EGTRRA as they wanted, and they did not do anything, it makes me think of the whole system before it was set to use. Was there a long and mainly sufficient preparation system which included all possibilities and ways which can the tax cuts follow? Were the effects worked out for different scenario? And was the effect set to a short term or a long term?

If the preparation of the Economic Growth Tax Relief Reconciliation Act was sufficient, how come it did not have a set goal, by reaching which it would be able to sunset the provisions soon? Acting according to real numbers would probably hurt the economy much less than waiting for the phase when the tax cuts became effective for the republican voters, which are mainly higher income taxpayers. The face of the Act was well managed, showing the empathy on the first stage to the lower income taxpayers. There were some long run effects of the EGTRRA for low income taxpayer.

The position of higher income taxpayer was set differently. The benefits were coming later, since the highest tax brackets were lowered as the last one, also followed at about the same time of phase out of personal itemized deductions and personal exemptions as it was mentioned before. The idea of differentiating how many years for which social group did not probably count on a different scenario than it had already implemented. Those couple years which were let for the lower income families to spend the more money which they got by the tax cuts and therefore they boosted the economy, led to a different way of thinking in the lower income taxpayer`s mind, and brought them confidence in the amount of money they could use for the well being. Connected with the social policies which were introduced even before the beginning of Bush`s administration, by the democrats, the benefits of the tax cut could indirectly lead to the housing boom and overrated spending from credit cards budgets.

Back to the numbers projected for EGTRRA, which is set to expired at the end of the year 2010. By the end of its duration, the Congress would be facing a record of \$13 trillion debt. The termination of EGTRRA has met with a hard time of economic recession and its slow recovery.

Regarding the spending of the taxpayers, they remain aware of the long-term budget outlook and adjust their short term financial decision accordingly. This might have been also one reason, why the Act did not work as it was proposed at the beginning. Once the tax payers, and therefore national spenders, saw the deficit getting bigger, that was a sign of unsustainable economy. So the national spending increased, and the biggest awareness of spending before year 2008, the war on terrorism was worsening the national budgets year by year and did not show the long term health of the government.

9.8. Tactics of EGTRRA

As it was mentioned in the previous sections, the administration under president Bush in year 2001 thought, that tax cuts were the best way to stimulate the economy and achieve the objectives of his administration during his years in presidential office. When considering efficiency of the Act and equity, probably direct support even by lower taxes, but only for lower income families without touching the tax brackets for wealthier taxpayers would be a shorter and more efficient way to fulfill the goal of the idea. This would probably give more direct benefits to the not well off taxpayer, who would become more independent on the government services, and therefore would decrease the government spending a little bit. It was not only the Act for the lower income families. It was looking for boosting the economy from higher and lower income taxpayer. While the lower income taxpayer were to boost the economy mainly in short term (if that was not the aim of the Act, it resulted into it in the first few years) and the higher income taxpayers were to effect more in long term run. One idea that comes of the democratic party of the United States is more persuaded that increasing the well-being of the poor directly could provide a base for a better long term effect on the society and that the government administration could be freed of some expenditures.

Again, the idea comes to whole system of EGTRRA, where it was thinking on the effects of all types of taxpayers while it was in the creation process and then how it dealt with its application.

9.9. Future of EGTRRA

Administration under president Bush has fight for the erasing of the sunset provisions included in the Economic Growth Tax Relief and Reconciliation Act. The ideas and persuasive opinions of the administration were that it will bring more certainty and following that, effectiveness of the tax cuts as well. This was discussed sooner for the effect in the ten year period of EGTRRA application. There still remains a question how would the tax cuts change and mainly their effect, if the sunsets provisions were prolonged or even eliminated. The Act was passed in year 2001 for a definite period of time and so it was gaining the votes in both Congress and Senate. Some people might consider the elimination of the sunset provisions as tactic step to make permanent changes in the whole personal income taxation system.

It is a question of point of view, but the elimination of the sunset provision would be able to bring uncertainty to the whole taxation system. As mentioned, the enlarging debt and decrease in government revenues, since the beginning of EGTRRA action brought the uncertainty and the elimination of the sunset provision could only double it and even bring a financial fear of unstable taxation system.

Before the EGTRRA introduction, the rate structure had a system, was progressive, reflected inflation and it is possible to say that it had permanency. The change in 2001 was a dramatic intervention into the tax system. Uncertainty became a real part of the system in the last decade. The system of the last decade left different impressions on taxpayers, those who were not satisfied with its passing and then implementation had a hope that everything can return back, to the scopes of tax system in year 2001, which was provided by the sunset provision. The possibility of change may not remain open, if Senate does not act in the last weeks of the year.

That there is need to do something with the tax system, and either its return to the state of year 2001 or prolonging the sunset provision, was noticed by both parties in the Congress and in the Senate.

There are more options for the Congress to consider the Bush tax cuts. There are two extreme options which have been discussed. Allowing to expire the Bush cuts as it was enacted, so at the end of 2010. That would improve the fiscal condition of the country, as there would be more money in the government revenues, but the recovery from

economic crisis would be much harder, since the taxpayers would have to pay more in taxes, leaving less money for their own spending. The second extreme option is to permanently extend all of the Bush tax cuts. This would not stop the recovery from the last recession, but it would endanger the fiscal policy of the federal government and it would still be a signal for the long-term fiscal policy that there is lack of progress. In either of those two cases, the United States economy is facing a problem with the budget deficits and the federal debts levels.

A recent study by Thomas L. Hungerford projects that the “*revenue would have to be permanently increased by 4.6% of GDP just to keep the debt-to-GDP ratio at the current level over the next 75 years under the current law scenario (i.e. allow the Bush tax cuts to expire)*”³⁰. If there was a prolongation of the Bush tax cuts, the fiscal gap would be permanently rising to extraordinary levels.

Democrats, after failing the battle for Senate in the autumn of 2010, realized that complete return to the pre-EGTRRA state would not be possible at all and they have started to look for a compromise. The Obama administration has proposed that the Bush cuts should expire, but only for the high income taxpayer, which means for single taxpayers with the income over \$200.000 and for the married taxpayer with the income over \$250.000 – which means that this would affect the richest 2% of the taxpayers. As mentioned in previous parts, it would not be a small amount of money due to the wealth redistribution.

The Obama administration argues that the middle class cuts are necessary to keep the economic recovery on track by preventing a sharp fall in the disposable income of the consumers. Based on this, democrat representative Sander Levin has prepared Middle Class Tax Relief Act of 2010 for the pass in Congress and Senate. “*Provisions in this bill represent a view that Democrats and Republicans share – we must give these middle-class families certainty by extending this expiring relief. We must not let congressional Republicans hold these families hostage while they insist on extending expensive tax cuts for the wealthiest few. So let us stand up and vote now to extend middle class tax cuts, extend AMT relief, extend the child tax credit and marriage*

³⁰ HUNGERFORD, Thomas L. Options Regarding the Bush Tax Cuts. In *The Bush Tax Cuts and the Economy* [online]. Washington, DC : Congressional Research Service, September 3, 2010 [cit. 2010-12-05]. Available at WWW: <<http://fpc.state.gov/documents/organization/148790.pdf>>.

penalty relief, extend the EITC, and extend critical education incentives to help more families afford higher education for their children.”³¹

President Obama has even established the National Commission on Fiscal Responsibility and Reform in February, 2010. Their main task was and still is to find solutions and tax policies which would improve the fiscal situation in short and mid-term and achieve long term fiscal sustainability of the United States. Looking at the fiscal state of the economy in the United States, it is more than probable that the tax code for the middle class will have to be changed in the near future. It is only a question of time when the economy will be recovered after the Great Recession, so the tax system would be able to take more of the taxpayers money and they still would be able to spend enough.

“Mark Zandi and some Democrats have reportedly advocated permanently extending the middle class tax cuts and temporarily extending the tax cuts targeted to high income taxpayers.”³² One of the groups would like to see extended all of the Bush tax cuts arguing that the raising taxes during the weak recovery, which would probably take longer as firstly proposed, could reduce the economic growth of the country and would even be able to push the economy back to recession.

Others refused the temporarily extending the middle class tax cuts and allowing the tax cuts targeting high income to expire as it was scheduled in the sunset provisions. This group disagrees with the president`s Obama suggestion in the Middle Class Tax Relief Act of 2010.

For the support of the Middle Class Tax Relief Act is the fact that allowing the high income tax cuts to expire as scheduled in the sunset provisions could help reduce the budget deficits in a short term without having any effect on the recovery from the recession. This is based on knowledge that tax cuts imposed on the high income taxpayers have only small stimulus effect on this group, since they tend to save more.

³¹ Accounting Today Staff. *Accounting Today* [online]. December 1, 2010 [cit. 2010-12-05]. Democrats Introduce Middle-Class Tax Cut Package. Available at WWW: <<http://www.accountingtoday.com/news/Democrats-Introduce-Middle-Class-Tax-Cut-Package-56507-1.html>>.

³² *Global Economic Intersection* [online]. 4 November 2010 [cit. 2010-12-05]. The Bush Tax Cuts and the Economy. Available at WWW: <<http://econintersect.com/wordpress/?p=2000>>.

And the amount of money they have designated to use for general spending will remain untouched, also due to their life standards, and it would affect mainly the saving. The spending before or after the tax cuts would be on about the same level, and it would not endanger the recovery from recession in a big scale, if at all. And because of the wealth distribution, the amount taken from the top 2% of taxpayers, if the sunset provisions are eliminated, could help the fiscal policy. As an addition, this model would be able to keep the middle and lower income taxpayers at the same percentage of taxes, so it will not destroy the recovery from the recession.

One of the possibilities would be to extend all of the Bush tax cuts for a limited period of time, which would give the Congress and Senate time to deal with the unsustainable deficits and debt trends, and to find a definite solution which would bring certainty. It is for the consideration of the representatives and administration whether it would not be worth keeping the Bush tax policies for couple more years and then introduce a solution which would be able to support the fiscal policy and give back the values and descriptors of the tax system that it had decade ago.

Many ideas have been written down as the deadline for the sunset provisions is coming closer. The former Bush press secretary Dana Perino said: "*Raising taxes on anybody in a recession is a terrible idea for job growth.*"³³ Completely different opinion came from Howard Gleckman of the Tax Policy Centre, whose idea is that „*Extending the tax cuts that benefit only the wealthy is poor stimulus*“³⁴. He thinks that the whole package of Bush tax cuts in EGTRRA benefits only wealthy taxpayers, who will bank their income and not spend it as lower income tax payers, who with their actions stimulate the economy and help to get rid the United States economy out of the recession.

Opinions meet in the idea that it more time is needed to get the economy out of the recession and improve the fiscal state of the government, mainly in the long term. Instead of finding blaster for the economy which was hardly hurt by the recession and

³³ *LeftWord* [online]. 15 November 2010 [cit. 2010-12-05]. Fox continues to suggest ending Bush tax cuts for wealthy would hurt small businesses. Available at WWW: <http://leftword.blogdig.net/archives/articles/November2010/15/Fox_continues_to__suggest_ending_Bus_h_tax_cuts_for_wealthy_would_hurt_small__businesses.html>.

³⁴ S., C. *Media Matters for America* [online]. November 29, 2010 [cit. 2010-12-05]. Fox still repeatedly pushing small business tax lie. Available at WWW: <<http://mediamatters.org/research/201011290011>>.

by the long term fiscal policy, it would be the best way to find a long term solution. Sacrifice of couple years in prolonging the sunset provisions can, in my opinion, bring the healing of the economy, which is more effective, than changing blasters every other year. This would help the economy to bring back the certainty, permanency, and mirror of the inflation to the taxation system. If there are voices that the EGTRRA by president Bush was structured poorly to obtain the aims of the whole act, these can help in returning the tax brackets and the whole personal income taxation into “normal” by giving it more time to explore what would help the economy the most, now when there is more real picture of the system after decade which was supposed to help the system.

Since the Middle Class Tax Relief Act of 2010 did not pass, it urges all the politicians to act soon and find a solution. President Obama has promised a progressive change in his presidential program, not only with the taxation. Looking only at the taxation, he has not come up with a solution to the situation in the two years in office. He and the Democratic party did not get the ability to pass more strong reforms, including the tax one. The only real solution, or just the most probable in the situation is to find a compromise between Republicans and Democrats. The only compromise they have up to now is that Democrats and Republicans mostly agree on extending the tax cuts for Americans making less than \$200,000 (\$250,000 for couples filing jointly), but President Obama wants to let the cuts expire for the top wage earners. The more “but” will appear in their solution finding, the more are endangered will be the taxpayers with uncertain future tax planning, the fiscal policy and mainly the recovery from the recession.

9.10. Summary of EGTRRA

The Economic Growth Tax Relief and Reconciliation Act was passed during a year with a surplus in a budget and during a year when there was a so-called recession, with its described features. There were money to stimulate the economy and an act proposal which could use the money in a way both parties would be likely to pass it. It was a great plan to all social groups, with only different timings.

A tax reform act with a structure like this can perfectly work for the creators, who want to achieve their set goals in not very strict way that would scare off the lower income families. These lower income families like the first effect of the act by lowered taxes, and even a check back for the tax returns from Uncle Sam. This would help them to boost their low budgets and the administration could be sure that all money from the sent checks would be used immediately and therefore returned back into the economy of the country. The phase-out advantages for higher income taxpayers were coming later, step by step, but it was sure that the lowering of the highest income tax bracket would come one day. The target group of this part of the tax reform knew that these taxpayers do not need direct changes with immediate cash back. Money from cash back checks from this target group would never end up immediately in the economy of the country. The money would go to savings, long term investments.

This tax reform act was unlucky to perform as it was proposed in June, 2001. Terrorist attacks of 9/11 were a big question mark for the economy in the home land, but the main effect on the national deficit was the started war on Afghanistan, and later on Iraq. This was something that the Economic Growth and Tax Relief Reconciliation Act did not count on. It is a probability that figures and different formulas would be able to provide us with effects of EGTRRA if there was no 9/11. But the reality does not know “ifs” and therefore the economy got into high debts, which should be paid in a way. In a way that would need to be think of as soon as the economy or politic representatives give it a chance.

Another unexpected hurt to the EGTRRA was Great Recession, which began fully in year 2008. It is a question of opinion, what role did EGTRRA play in its creation. Even before arrival of George W. Bush to White House, the lower income taxpayer got thought by an administration of president Clinton that social welfare is a right they

have. And it is very easy to get used to rights, much faster than to duties and responsibilities. It probably was not a direct aim of the EGTRRA, but by sending out cash back checks to the lowest income taxpayers, they were even more supported in their idea that social welfare is for everybody. Once a person gets used to a standard, or to a belief, that he has enough money and can afford much more, it is hard to stop spending. Living on credit cards and taking mortgages. It a question, but could not be the one provision of EGTRRA a small step to Great Recession? The Great Recession took jobs, money, houses, gas prices that people were used to. It brought higher deficit in the national budget and gaps in the fiscal policy of the United States. Again it is not possible to estimate, how would the EGTRRA affect the economy, if there was not Recession. The Recession came and it got the administrations of both president Bush and president Obama so busy, that they almost forget for the sunset provision.

The drafting and planning of EGTRRA did not take that long for the specialists of administration of that time. The goals were clear. To stimulate the economy, by lowering taxes. It has a great first impression, and even better second thoughts. People who profit the most out of the system, and the implication of EGTRRA were the higher incomers. Higher incomers, who are in most of the cases the Republican voters. The administration did not do it by an accident. Hidden goal was clear for those for whom it was aimed, and that is also one of the reasons why they kept their administration in White House for the whole eight years. Taxation is one of the tools how to make people listen to you. It would affect them directly, and that is why they care. Taxation acts, and mainly those big ones as EGTRRA is a way how to get attention in a political sphere even from the lowest income taxpayers.

As the sunset provision is coming to an end in December 2010, the politicians realized the importance of considering future of the Economic Growth and Tax Relief Reconciliation Act. After not successful proposal of Middle Class Tax Relief Act of 2010, and shortening time, both parties resolved a big standoff of the taxation system and mainly of the certainty for the citizens of the United States. A tentative deal of Democrats with Republicans to extend Bush-era tax cuts at all income levels for two years as a part of package that would also keep benefits flowing to the unemployed and other social benefits were announced nearly three weeks before the expiration of sunset provisions. This agreement is not considered as perfect since it is a compromise, but it is

considered to be an essential step on the road to recovery. The current president of the United States has sacrificed some of his goals and one of the main points of his program when heading to the presidential office in year 2008, for keeping his promise on middle class families, and therefore not increasing their taxes as on January 1st, 2011. Mr. Obama expressed his opinion on the deal in, right after reaching the compromise: *“I am not willing to let working families across this country to become collateral damage for political warfare here in Washington.”*³⁵ While the plan ‘s price is probably going to provoke some opposition, administration officials and many economists have been calling for additional short-term deficit spending to help stimulate the economy and create jobs, even when there is a knowledge of desperate need for a long term action to minimize the national debt.

The new decision did not bring many news to the tax policy of the United States. It therefore brought an important time, which could be provided to those, who are creating the new tax policies, which will deal with the national debt, which will be enlarged by \$900 billion in these two years, and with the fiscal policy.

Economic Growth Tax Relief Reconciliation Act was a stimulus for the short-term spending, decreased the tax liability for all groups of taxpayers. It was a way to go in year 2001, and probably could be a good way to go if certain events would not appear. In my opinion, the two year extension of EGGTRA was the smartest decision they could do, without discriminating any group of the taxpayers. There is a need of hope for the coming two years that the tax change on January 1st 2013 will not be just another plaster, but the whole healing procedure implemented for the all aspects of economy of the United States.

³⁵ White House, Office of the Press Secretary. *The White House* [online]. December 06, 2010 [cit. 2010-12-06]. Statement by the President on Tax Cuts and Unemployment Benefits. Available at WWW: <<http://m.whitehouse.gov/the-press-office/2010/12/06/statement-president-tax-cuts-and-unemployment-benefits>>

10. CONCLUSION

The main aim of this thesis was to show the complexity of personal income taxation in the United States of America, by explaining the system of taxation and the main changes of the personal income taxation for the last ten years, under the influence of Economic Growth and Tax Relief Reconciliation Act, which was passed in year 2001.

To understand the changes and the effects of the taxation system, it is important to know the structure of the taxes, which is very complicated. The structure of the income taxation system as we know it today, got to its today's resemblance through very complicated historical development, where every bigger event or change in the history left its remark on the structure. The earlier or the recent history plays a significant role of the personal income taxation in the United States.

Structure and the whole process of getting the payable number of tax is a very complicated one for an individual taxpayer. Not knowing the requirements, eligibility for certain deductions and exemptions may shift the taxpayer easily into a different tax bracket. On the other hand, knowledge of the system can bring big benefits, for which the United States get sometimes a nickname of socialist state. The aim of system of deductions and exemptions is set in completely different way than is the purpose of the whole taxation system. It seems that it is a way of compromise between getting money from the taxpayer for the running of the government, and therefore not creating bigger and bigger debt, and giving the money back to people to boost and not to slow down the economy, or to get the country out of a recession. The United States personal income taxation system and its structure does not remind of a word balance though, but it reminds more of a word indecisive. Taxes are the main point in the election campaign for each administration. And since two big parties are taking turn in the office, the whole personal income taxation system is a reflection mirror of these changes.

State income system does not differ a lot from the federation system. The specification of each state's taxation system is mainly in figures of the taxes and its implementation. Because of the difference of the values, state's taxation system is often a reason for people to migrate in between different states. Maryland was a good example to consider since its geographical position, size and similarity of neighboring states give a good

comparison. In Maryland and the neighboring states, people tend to move more in case of changing jobs and therefore finding the best solution for their taxation.

The changes of the personal income taxation system on federal level were more than significant in last ten years. The main aim of the EGTRRA was fair to all taxpayers since it had advantages for lower and higher income taxpayer. The goals were set to boost the economy of the United States in short term, and not to damage the national debt in a very rough way. Unfortunately, the result of EGTRRA cannot be measured neutrally. At least two significant events during the lasting have had impact on it. The decision, which soon should be approved, was a smart one in my opinion. The country needs an extra time to get recovered from the recession and to rethink the future of taxation system.

The whole system of personal income taxation has developed in time, changes of the taxation system make the system more complicated for the individual taxpayer. Taxes are tools to get the country into desired direction, tax policies are tools to get the country easily into a recession, get it out of the recession or to boost the economy to its best. Usually for the cost of not positive long term effect. There is no vision of simplification of the whole system in the near future. Its main role is not to serve the taxpayers, but to serve the government. And the United States government is aware of that fact, as governments in other countries.

The personal income taxation system of the United States is a complicated machine constructed out of uncountable number of particles, with difficult operations changing throughout the time. But good knowledge of the particles and process of the operations can at the benefit the individual taxpayer due to its configuration.

11. SUMMARY IN CZECH LANGUAGE

ÚVOD

Zdanění příjmu fyzických osob hraje v ekonomice Spojených států amerických podstatnou roli. Daňový systém byl po celou historii Spojených států ovlivňován politickými a hospodářskými změnami a díky výrazným zvratům posledních desetiletí odráží daňový systém celkový stav země. Příjmy pramenící z daní byly využity způsobem odpovídajícím potřebám státu a vedly k posunu daňových pásem a změně výše odpočtů a daňových úlev právě podle těchto potřeb. Daňový systém poskytuje pro různé úrovně státu odlišné formy zdanění.

Hlavním cílem této práce je určit pravidla, kterými se řídí systém zdanění příjmu fyzických osob, představit schéma výpočtů v daňovém přiznání a poukázat na změny systému, zejména pak v posledním desetiletí, kdy byla přijata celá řada zákonů, které měly podpořit růst ekonomiky.

Předkládaná práce je rozdělena do čtyř hlavních částí. Účelem první části je představit vývoj systému zdanění příjmu fyzických osob do té podoby, ve které ho známe v současné době. Druhá část práce charakterizuje systém daně z příjmu fyzických osob a zabývá se podrobným popisem odlišného postavení jednotlivých subjektů, odpočtů, progresivních daňových pásem a daňových úlev pro daňové poplatníky. Třetí část se stručně věnuje systému zdanění příjmu fyzických osob ve státě Maryland, a ukazuje tak další vrstvu daňového systému s vlastními pravidly. Čtvrtá část reflektuje změny daňového systému, které se uskutečnily v posledních deseti letech a které měly charakteristické důsledky pro různé skupiny daňových poplatníků a ovlivnily i ekonomickou situaci země. Výše uvedené části dohromady vytváří obraz o systému zdanění příjmu fyzických osob ve Spojených státech amerických a jeho fungování.

VÝVOJ INSTITUTU DANĚ Z PŘÍJMU FYZICKÝCH OSOB VE SPOJENÝCH STÁTECH

Daňový systém Spojených států prošel během svého vývoje zásadními proměnami, a to jak s ohledem na společenské změny, tak ve vztahu k změnám funkce státu. Jednou z největších změn bylo přijetí Šestnáctého dodatku k Ústavě Spojených států, který Kongresu přiznal právo na uložení daně z příjmu.

Šestnáctý dodatek přinesl změnu, která umožnila federální vládě uložit daňovou povinnost fyzickým osobám, aniž by ji přiřadila jednotlivým státům rovnoměrně nebo na základě výsledků sčítání lidu. Dodatek byl v roce 1913 přijat všemi státy a Kongres ještě téhož roku schválil nový zákon, který zavedl daňovou povinnost v rozmezí od 1 % až 7 %, přičemž tato horní hranice se uplatnila pro osoby s příjmy vyššími než 500.000 dolarů ročně.

Jiná, neméně důležitá změna se odehrála v roce 1945, kdy daň z příjmu začala být vybírána srážkou přímo u zaměstnavatele, stejně jak tomu bylo během občanské války.

Hospodářská situace na počátku osmdesátých let 20. století vedla prezidenta Reagana v roce 1981 k podpoře přijetí zákona o ekonomickém oživení a zdanění (*Economy Recovery Act*). Reforma, jež byla předmětem zákona, reagovala na danou situaci snížením daňových pásem o 25 % po následující 3 roky, přičemž nejvyšší daňové pásmo bylo sníženo o 50 %, a valorizací daně z příjmu z důvodu inflace. Snížení daní během prezidentského úřadu G. W. Bushe (v roce 2001) zákonem o ekonomickém růstu a rekonsolidaci daňových úlev (*Economic Growth and Tax Relief Reconciliation Act*).

PRAMENY PRÁVA SPOJENÝCH STÁTŮ O DANI Z PŘÍJMU

Ve Spojených státech existuje pro oblast práva zdanění příjmu fyzických osob celá řada pramenů. Ty můžeme rozdělit do tří pilířů:

První pilíř:

- Ústava Spojených států amerických
- daňový zákon (*Internal Revenue Code*) – právní předpis přijatý Kongresem Spojených států
- předpisy o finanční správě
- stanoviska federálního soudu
- smlouvy

Druhý pilíř:

- výkladové předpisy jednotlivých úřadů (vydávané finančním úřadem a Ministerstvem financí),

- veřejnoprávní rozhodnutí (rozhodnutí finančního úřadu, která jsou zdrojem odpovědí na specifické otázky a jsou závazná pro všechny daňové poplatníky)

Třetí pilíř:

- legislativní historie
- rozhodnutí v oblasti soukromé sféry

ČLENĚNÍ DANĚ Z PŘÍJMU FYZICKÝCH OSOB

Subjekty federální daně z příjmu fyzických osob

Subjekty federální daně z příjmu lze rozdělit do dvou hlavních skupin: občané (rezidenti) a nerezidenti.

Občanem Spojených států je fyzická osoba narozená na území Spojených států, Puerto Rica, Guamu či Amerických Panenských ostrovů, fyzická osoba, jejíž rodiče jsou občané Spojených států, a cizí státní příslušník, který byl naturalizován. Za nerezidenta je považován cizí státní příslušník, který je v průběhu roku účasten podnikatelských či obchodních vztahů se Spojenými státy, nebo cizí státní příslušník bez těchto podnikatelských či obchodních vztahů, ale s příjmy ve Spojených státech, u kterých nebyla daň sražena přímo u zdroje.

Daňový statut (filing status)

Daňový statut daňového poplatníka rozhoduje o náležitostech daňového přiznání, konkrétně o tom, jaká výše daní a odpočtů se při podání daňového přiznání u tohoto poplatníka uplatní. Ve většině případů odráží daňový statut rodinný stav daňového poplatníka k poslednímu dni daňového roku. Existuje pět daňových statutů:

- Jednotlivci
- Manželé podávající společné daňové přiznání
- Manželé podávající samostatná daňová přiznání
- Hlava rodiny
- Oprávněný vdovec / oprávněná vdova se závislým dítětem

Daňový statut jednotlivce

Osoba, která do konce roku nevstoupila do manželství, byla právně odloučena či rozvedena, je pro účely daňového přiznání považována za jednotlivce a není oprávněna využívat jiného daňového statutu.

Daňový statut hlavy rodiny

Daňový poplatník, který nevstoupil do manželství, ale stará se o rodinného příslušníka po dobu delší než půl roku, je považován za hlavu rodiny.

Manželé podávající společné daňové přiznání

Daňoví poplatníci – manželé si mohou zvolit, zda chtějí podávat daňové přiznání společně se svým manželem, nebo odděleně. Pokud daňové přiznání podávají v rámci daňového statutu manželů podávajících společné daňové přiznání, mohou tito přiznat své příjmy, slevy a odpočty v jednom daňovém přiznání. Za manžela je považována osoba, která žije v právem uznávaném manželství, a to k poslednímu dni roku. Aby bylo možné podat společné daňové přiznání, musí oba manželé souhlasit s podáním tohoto společného přiznání, oba musí toto přiznání podepsat a oba na sebe musí rovněž vzít i plnou odpovědnost za přesnost a úplnost informací uvedených v daňovém přiznání.

Manželé podávající samostatná daňová přiznání

Manželé si mohou také zvolit variantu, v rámci níž budou daň z příjmu přiznávat odděleně prostřednictvím samostatných daňových přiznání.

Ve chvíli, kdy daňový poplatník podal společné daňové přiznání manželů, nemá již možnost tuto volbu změnit. V opačném případě, kdy manžel daňové přiznání podal samostatně, může druhý manžel podat opravené přiznání a změnit ho na variantu společného daňového přiznání manželů.

Oprávněný vdovec / vdova se závislým dítětem

V případě, že se daňový poplatník nachází v situaci, kdy jeho manžel v období posledních dvou let zemřel, poplatník sám nevstoupil do nového manželství a stará se po celý rok o závislé dítě, může tento podat daňové přiznání jako oprávněný vdovec či oprávněná vdova. V rámci tohoto statutu lze uplatit stejnou výši odpočtů a daňových výhod jako u společného daňového přiznání manželů.

ZÁKLAD DANĚ

Za základ daně z příjmu fyzických osob jsou považovány hrubé příjmy, které jednotlivec získá. Celková výše příjmů daňového poplatníka je pak východiskem pro další úpravy, na základě kterých je určen daňový výměr.

Pro výpočet výše upraveného hrubého příjmu je nutné odečíst výdaje spojené s obchodováním či podnikáním, které byly poplatníkem vynaloženy z hrubého příjmu. Z tohoto upraveného hrubého příjmu lze uplatnit osobní odpočty (*personal deductions*) a slevy na dani (*deduction of personal exemption*).

UPRAVENÝ HRUBÝ PŘÍJEM A ZDANITELNÝ PŘÍJEM

Definici upraveného hrubého příjmu lze nalézt v § 62 daňového zákona; ta stanoví, že upravený hrubý příjem je hrubý příjem daňového poplatníka jakéhokoli původu ponížený o výdaje spojené s obchodováním či podnikáním. Popisované účelové (*itemized*) či standardní (*standard*) odpočty a slevy na dani jsou pak z tohoto upraveného hrubého příjmu odečteny; výsledkem je zdanitelný příjem.

ODPOČTY

Daňový systém Spojených států je založen na myšlence, že míra zbohatnutí je určující pro to, do jaké výše by měl daňový poplatník nést výdaje státu.

Abychom získali přesnou částku rovnající se čistému příjmu (neboli zdanitelnému příjmu), je nutné hrubý příjem ponížít o odečitatelné výdaje. Je třeba odlišit osobní výdaje, které se daňový poplatník rozhodl vynaložit z vydělané částky, a výdaje spojené s podnikáním, které daňový poplatník vynaložil pro získání hrubého příjmu.

Daňový zákon rovněž umožňuje odpočty čistě osobní povahy.

Účelové odpočty

Výdaje na zdravotní péči, ztráty

Daňový poplatník je oprávněn odečíst výdaje za zdravotní a stomatologickou péči, které vynaložil za svou osobu, za manžela (manželku) a rodinné příslušníky.

Jak naznačuje obecné pravidlo pro odpočty, v případě odečitatelných výdajů nezahrnují se ty, které se během roku opakují a mohou být rodinou plánovány. V takovém případě musí přesáhnout 7,5 % upraveného hrubého příjmu daňového poplatníka za rok.

Odpočet v případě ztráty na majetku je možné uplatnit tehdy, pokud došlo k významné ztrátě osobního charakteru z důvodu krádeže nebo škody na majetku, přičemž tato škoda byla náhlá a nečekaná. Pravidlo minimální procentní výše upraveného hrubého příjmu se uplatní na úrovni úhrnných 10 %.

Příspěvky na dobročinné účely

Tyto příspěvky mohou být činěny ve vztahu k organizacím, které splňují požadavky daňového zákona – musí být zřízeny a provozovány výlučně pro dané účely, v některých případech musí podávat žádost u finančního úřadu.

Daňový zákon umožňuje odpočty až do výše 50 % upraveného hrubého příjmu daňového poplatníka.

Standardní odpočty

Standardní odpočet je částka vyjádřená v dolarech, která může být odečtena daňovým poplatníkem, který neuplatňuje účelové odpočty. Jeho výše závisí na daňovém statutu poplatníka. Standardní odpočet ale nemohou využít cizí státní příslušníci - nerezidenti, kteří žijí na území Spojených států, ani cizí státní příslušníci, kteří v témže roce byli jak rezidenty, tak nerezidenty (*dual-status*). Je nutné odlišit standardní odpočty a slevy na dani. Vzhledem ke skutečnosti, že není možné uplatnit jak standardní, tak účelové odpočty, si daňový poplatník často zvolí takový odpočet, který jeho daň sníží více.

SLEVA NA DANI

Od zdanitelného příjmu lze v rámci daňového přiznání odečíst také částku rovnající se slevě na dani. Jednotlivé slevy na dani, které může daňový poplatník v daňovém přiznání uplatnit, jsou ve výši 3.650 dolarů (pro roky 2009 a 2010) odpočtu. Každý daňový poplatník může uplatit slevu na dani na svou osobu, pokud je ženatý (vdaná), tak slevu na manžela, a v případě, že se stará o rodinné příslušníky, tak i slevu na každou takovou osobu.

Daňové úlevy

Daňové úlevy vedou ke snížení částky, jíž má daňový poplatník povinnost danit. Zatímco odpočty snižují pouze výši příjmu, která je předmětem daně, daňové úlevy přímo snižují tuto daňovou povinnost. Daňové úlevy lze rozdělit do dvou skupin: vratné a nevratné.

Daňové úlevy z příjmů pracujících (*earned income tax credit*)

Původně nevýznamné daňové úlevy byly v roce 1993 zákonem podstatně rozšířeny. Jedná se o příspěvek, který snižuje, nebo dokonce ruší daň a je vyplácen pracujícím rodinám s nízkými příjmy. Tento příspěvek představuje podporu těch daňových poplatníků, kteří, ačkoli mají rodičovské povinnosti, jsou ochotni pracovat i za cenu nízké mzdy (příspěvek se vztahuje pouze na pracující osoby).

Zákon o ozdravení ekonomiky a reinvesticích (*American Recovery and Reinvestment Act*) zvýšil na období let 2009 a 2010 daňové úlevy z příjmů pracujících rodin pro pracující, kteří mají tři nebo více oprávněných dětí.

Hlavním záměrem daně z příjmu fyzických osob je shromáždit prostředky pro fungování státu. Daňové úlevy z příjmů pracujících mají opačný účinek: přerozdělují prostředky lidem jen z toho důvodu, že pracují. Tento fakt může vyvolávat otázky o efektivitě systému a těchto úlev.

Daňové úlevy za péči o rodinného příslušníka (*child and dependent care credit*)

Daňové úlevy za péči o rodinného příslušníka jsou založeny na výdajích vynaložených na péči o děti či oprávněnou osobu. Tato podpora je určena pro rodiče či osoby, které tuto péči poskytují, a má za cíl umožnit těmto osobám pracovat či hledat zaměstnání.

Výše úlevy se rovná procentu z částky vynaložené na výdaje za péči a vedení domácnosti.

Daňové úlevy za péči o dítě (*child tax credit*)

Daňové úlevy za péči o dítě snižují daňovou povinnost rodin, jejichž příjem je nižší než 130.000 dolarů. Plná výše úlevy je maximálně 1.000 dolarů za dítě, přičemž hranice, nad níž je výše poskytované úlevy omezována (*phase-out*), je 110.000 dolarů upraveného hrubého příjmu pro manžele podávající společné daňové přiznání, 75.000 dolarů pro daňové poplatníky – jednotlivce, hlavy rodiny a vdovce či vdovy, a 55.000 dolarů pro manžele podávající samostatná daňová přiznání.

Daňové úlevy za vzdělávání (*education credits*)

Osoby, které si platí odborné školení nebo vzdělávání na odborné či vysoké škole, mají k dispozici dva druhy daňových úlev za vzdělávání: *The American Opportunity Credit* a *The Lifetime Learning Credit*. Celý systém podpory vzdělanosti byl zaveden zákonem o daňových úlevách (*Tax Relief Act*) z roku 1997.

The American Opportunity Credit, které byly zavedeny ve fiskálním roce 2009, jsou vylepšením úlev původně pod názvem *Hope Credit*. Došlo k rozšíření možností získání úlev, přičemž tyto pokrývají ne dva roky vzdělávání, jak činily *Hope Credit*, ale čtyři roky, za oprávněné výdaje byly uznány učební materiály, došlo i ke zvýšení výše úlev. *The American Opportunity Credit* jsou omezeny pouze na studující osoby.

The Lifetime Learning Credit (Daňové úlevy za celoživotní vzdělávání) jsou určeny pro studenty, kteří prochází následným vzděláváním, ale nemohou pro tento účel využít *American Opportunity Credit*. *The Lifetime Learning Credit* jsou omezeny na jednu osobu v domácnosti, přičemž daňový poplatník nemůže uplatnit oba druhy úlev v jednom fiskálním roce.

ALTERNATIVNÍ MINIMÁLNÍ DAŇ (*ALTERNATIVE MINIMUM TAX*)

Alternativní minimální daň (AMT) představuje paralelní daňový systém s běžným zdaněním příjmů, tzv. druhý daňový systém. AMT byla zavedena v roce 1969 zákonem o daňové reformě (*Tax Reform Act*) a do užívání se dostala v roce 1970. Původní název AMT byl „milionářská daň“, dnes známá jako jedna z nejkontroverznějších druhů daní.

Byla zacílena na 155 domácností s vysokými příjmy, které požadovaly celou řadu daňových výhod, přičemž ale platily nízké či žádné daně z příjmu. Příjmové skupiny v rámci AMT nebyly připraveny na inflaci, proto, když inflace postupem času rostla, se AMT použila na čím dál vyšší počet daňových poplatníků a vztahovala se i na střední třídu. To byl vývoj, který Kongres při přijímání AMT nepředvídal. Daňoví poplatníci musí v současné době vypočítávat své daně jak podle běžného daňového systému, tak i podle AMT, a mají povinnost uhradit tu částku, která je vyšší.

DAŇOVÁ PÁSMA (*TAX BRACKETS*)

Ve Spojených státech, stejně jako ve většině států je povinnost poplatníků k dani z příjmu stanovena za pomoci daňových pásem. Tento systém ve Spojených státech využívá progresivní zdanění, což v praxi znamená, že zvýšení daně odpovídá zvýšení příjmu daňového poplatníka.

Od roku 2008 existuje šest daňových pásem pro zdanění příjmu fyzických osob, a to v rozmezí od 10 % do 35 %.

HAUSERŮV ZÁKON (*HAUSER'S LAW*)

Hauserův zákon říká, že příjmy federálního rozpočtu Spojených států z daní (jak z příjmu fyzických a právnických osob, tak i ze sociálního zabezpečení) se budou vždy rovnat 19,5 % HDP, a to bez ohledu na změnu mezních pásem.

DAŇ Z PŘÍJMU FYZICKÝCH OSOB VE STÁTĚ MARYLAND

Zdanění příjmů fyzických osob na úrovni států

Daň z příjmu může být daňovým poplatníkům uložena také jednotlivými státy. Největší příjem rozpočtů jednotlivých států (ve státech, kde je tato daň z příjmu uložena) ze všech daní představuje daň z příjmu fyzických osob. Kromě daně z příjmu na úrovni státu může být uložena i další daň z příjmu na místní úrovni.

Daňový systém ve státě Maryland

Systém daně z příjmu fyzických osob ve státě Maryland zahrnuje osm oddělených pásem s nejvyšší sazbou 6,25 %, která se uplatní u příjmů přesahujících 1 milion dolarů. Mezi státy, které svým občanům ukládají daň z příjmu fyzických osob, je Maryland státem s 20. nejvyšší sazbou.

Rezidenství ve státě Maryland

Daňový poplatník se považuje za zákonného rezidenta, pokud má v poslední den daňového období na území států Maryland (trvalý) pobyt, nebo má ve státě Maryland bydliště a zdržuje se zde déle než šest měsíců v roce.

I nerezidenti mají v určitých případech povinnost podat ve státě Maryland daňové přiznání, a to tehdy, pokud příjem takového daňového poplatníka pochází z: hmotného majetku, ať už movitého či nemovitého, trvale umístěného na území státu Maryland; povolání či zaměstnání, obchodu či podnikání provozovaného na území státu Maryland; výher z hazardních her pocházejících z finančních zdrojů státu Maryland, zejména pak z Marylandské státní loterie.

Podmínky pro podání daňového přiznání ve státě Maryland

Podání daňového přiznání je podmíněno tím, že je osoba rezidentem státu Maryland, má povinnost podat federální daňové přiznání a její hrubý příjem ve státě Maryland se rovná či přesahuje minimální hranici daňového statutu pro povinnost podat daňové přiznání. Zvláštní podmínky se pak uplatní u daňových poplatníků, kteří, ač nejsou rezidenti, mají povinnost platit daň z příjmu fyzických osob na úrovni státu Maryland.

Daňový statut

Pro daňový statut (rozdělení a podmínky statutů) se na úrovni státu použijí stejná pravidla jako na federální úrovni.

Slevy na dani

Poplatníci daně z příjmu fyzických osob na úrovni státu Maryland mohou ve svém daňovém přiznání uplatňovat tytéž slevy jako na federální úrovni, nicméně jejich výše je odlišná. V případě, že daňový poplatník nemá povinnost podávat federální daňové přiznání, ale naopak podává daňové přiznání na úrovni státu Maryland, slevy na dani jsou ve stejné výši jako na federální úrovni. Všechny slevy na dani, na které má nárok daňový poplatník na základě federálního daňového přiznání, jsou určeny v jednotné výši 3.200 dolarů, a to pro daňové poplatníky, jejichž upravený hrubý příjem nepřesahuje 100.000 dolarů či 150.000 dolarů v případě společného daňového přiznání.

Daňové úlevy za péči o rodinného příslušníka

V rámci daňového systému státu Maryland existují dva nástroje uplatňující se u péče o děti či závislou osobu: odpočty a daňové úlevy. Jak již bylo uvedeno výše, odpočty snižují výši zdanitelného příjmu a daňové úlevy snižují výši daně, kterou má daňový poplatník povinnost zaplatit finančnímu úřadu.

Daňové úlevy, pokud na ně existuje nárok na federální úrovni, mohou být daňovými poplatníky využity rovněž na úrovni státu Maryland.

ZÁKON O EKONOMICKÉM RŮSTU A REKONSOLIDACI DAŇOVÝCH ÚLEV (ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT - EGTRRA)

Zákon o ekonomickém růstu a rekonsolidaci daňových úlev byl přijat v červnu 2001, ale jeho vzniku předcházely různé události, které změnily směr, jakým se zákon měl ubírat. Jednou z těchto událostí byla recese, která začala situaci ve Spojených státech ovlivňovat v roce 2001.

Recese v roce 2001

Recese, která přišla v roce 2001, se v určitých aspektech odlišovala od jiných recesí. Byla mírná, alespoň co se týká souvisejících poklesů ve spotřebě a produkci. Výše celkových odpracovaných hodin prudce poklesla, ale produktivita práce zůstala na poměrně vysoké úrovni. Kromě toho, zatímco fixní investice se rychle snižovaly, individuální investice a kupní síla zboží dlouhodobé spotřeby zůstaly i přes vlivy recese silné.

Výsledky prezidentských voleb v roce 2000 naznačovaly, že domácnosti a podnikání budou v nadcházejících letech čelit velkým změnám v daňových sazbách. Republikánská strana předpokládala, že připraví stálou změnu daňového zákona, ačkoli tento obsahoval ustanovení, podle kterých budou ustanovení daňového zákona účinná jenom do konce roku 2010.

Sunset provisions

Zákon o ekonomickém růstu a rekonsolidaci daňových úlev byl přijat podle pravidel rekonsolidace, což znamenalo, že ustanovení pozbudou účinnosti nejpozději na konci

roku 2010. Do začátku prosince 2010 nebyl přijat žádný právní předpis, který by prodloužil účinnost ustanovení i po roce 2010. Administrativa prezidenta Bushe požadovala vynětí *sunset provisions*, které byly součástí zákona. Jejím hlavním argumentem bylo, že vynětí je jediná cesta, jak zvýšit jistotu a zejména pak efektivitu snížení daní.

Změny uskutečněné zákonem o ekonomickém růstu a rekonsolidaci daňových úlev

Hlavní změnou, kterou zákon o ekonomickém růstu a rekonsolidaci daňových úlev přinesl, bylo snížení daňových pásem, zdvojnásobení daňových úlev za péči o děti a zrušení tzv. „manželské pokuty“.

Hlavním cílem vlády v těchto letech bylo zlepšit špatný stav ekonomiky, a to částečně prostřednictvím snížení marginálních daňových sazeb, což mělo přinést více peněz do kapes amerických daňových poplatníků. Uzdravení americké ekonomiky mělo být provedeno zvýšením kupní síly a spotřebitelské důvěry daňových poplatníků. Jak se ukázalo, snížení daní nepřineslo očekávané výsledky.

Změny daňových pásem

Nejvíce diskutovanou změnou bylo rozdělení daňového pásma ve výši 15 % na nové pásmo ve výši 10 %, ačkoli patnáctiprocentní pásmo nezískalo další snížení sazby jako ostatní daňová pásma. Jednou z hlavních otázek, které zákon o ekonomickém růstu a rekonsolidaci daňových úlev vyvolává, je jeho účel, konkrétně, pro koho byl tento zákon přijat, jeho výhodnost pro různé sociální skupiny či skutečná míra podpory a urychlení ekonomiky.

Spravedlnost snížení daní

Zákon byl původně přijat jako impuls, a to marginálním snížením daňové sazby pro daňové poplatníky s nízkými příjmy tak, aby u nich došlo ke snížení daně z příjmu, zvýšení úlev za péči o děti, snížení manželské pokuty a zvýšení příspěvků na dobročinné účely. Prvotně proklamovaná nejvyšší míra snížení daní pro daňové poplatníky s nízkým příjmem byla převážena penězi – největší částka v dolarech ze snížení daní skončila u majetných daňových poplatníků.

Jiná otázka týkající se spravedlnosti snížení vyvstává u ustanovení o zrušení omezení u účelových odpočtů. Pouze daňoví poplatníci, jejichž příjem převyšoval uvedený upravený hrubý příjem, mohli na tomto zrušení vydělat.

Rozdělení bohatství

Struktura daňových pásem má značný vliv na rozdělení bohatství ve Spojených státech. Pro zvýšení dopadu těchto pásem na rodiny s nižšími příjmy by bylo nutné, aby rozdělení bohatství proběhlo odlišnou cestou, přímo ke konkrétním příjmovým skupinám.

Jedním z pokusů, kterými se snažila Bushova administrativa rozdělit bohatství mezi skupiny s nízkým příjmem, bylo zasílání šeku celé řadě daňových poplatníků, kteří se dostali na základě retroaktivního zákona do daňového pásma 10 %. Hlavním záměrem bylo posílení ekonomiky s okamžitým účinkem na osobní výdaje, a to vzhledem k rychlému vložení peněz do ekonomiky.

Výsledkem této jednorázové akce bylo pouze minimální zvýšení výdajů, které se rovnalo 0,1 % nárůstu osobních spotřebních výdajů, ačkoli výše použitelného příjmu fyzických osob vzrostla o téměř 2 %. Změna spočívající v desetiprocentním daňovém pásmu představovala pro mnoho daňových poplatníků pouze momentální úlevu, ale propůjčila Bushově administrativě tvář spravedlivého rozdělení bohatství. Výsledky ukazují, že ani nestranné výhody, ani rozdělování bohatství nefungovaly ve prospěch prohlášení a cílů vlády.

Vliv na odpracované hodiny

Dalším cílem, kromě posílení ekonomiky, bylo zvýšení počtu hodin odpracovaných daňovými poplatníky. Snížení daní mělo dva různé důsledky na odpracované hodiny: zvýšení počtu odpracovaných hodin, ale pouze o 0,5 %, a více volného času, jelikož daňoví poplatníci pracovali v kratším časovém období za stejné množství peněz.

Vliv na rozpočet

Zpočátku byl zákon o ekonomickém růstu a rekonstrukci daňových úlev v podpoře ekonomiky v recesi v roce 2001 úspěšný. Výdaje po určitý čas rostly, lidé více

pracovali, ačkoli z jednoho vydělaného dolaru mohli získat více, a také začali více spořit. Bohužel tento první úspěch netrval dlouho. Další roky se již roční schodek rozpočtu zvyšoval.

Prostřednictvím *sunset provisions* bylo stanoveno, že úprava daní vyprší na konci roku 2010. Snížení daní zvyšovalo každým rokem státní dluh, ale alespoň v určité míře posilovalo ekonomiku. Do relativně dobrého stavu se ekonomika dostala v roce 2004. Pokud by bývala proběhla řádná příprava zákona o ekonomickém růstu a rekonsolidaci daňových úlev, tento stav mohl být předvídan a účinnost těchto ustanovení mohla být ukončena dříve.

Daňoví poplatníci si byli dlouhodobého rozpočtového výhledu vědomi a přizpůsobili tomu i svá krátkodobá finanční rozhodnutí. Ve chvíli, kdy si daňoví poplatníci uvědomili, že se deficit zvyšuje, jednalo se o známku nestabilní ekonomiky. Národní výdaje, zejména pak výdaje na válku s terorismem a ozdravení hospodářské situace, se zvýšily a svědčily o dlouhodobě špatném stavu státu.

Taktika zákona o ekonomickém růstu a rekonsolidaci daňových úlev

Pokud uvážíme efektivitu zákona a spravedlnost systému, bylo by pro dosažení téhož cíle kratší a efektivnější cestou přímá podpora rodin s nízkými příjmy (i prostřednictvím nižších daní), aniž by se měnila daňová pásma pro majetnější daňové poplatníky. Tento postup by s největší pravděpodobností poskytl přímé výhody daňovým poplatníkům s nižšími příjmy, kteří by se stali více nezávislími na službách státu, což by v důsledku mohlo snížit vládní výdaje alespoň o určitou část. S touto myšlenkou se lze opět vrátit k systému zákona o ekonomickém růstu a rekonsolidaci daňových úlev, jestli se v rámci jehož přípravy uvažovalo i o důsledcích pro všechny typy daňových poplatníků a následně o způsobu jeho aplikace.

Budoucnost zákona o ekonomickém růstu a rekonsolidaci daňových úlev

Zrušení *sunset provision* by mohlo do celého daňového systému vnést nejistotu. Jak již bylo uvedeno, narůstající výše dluhu a snížení vládních příjmů od začátku působení zákona o ekonomickém růstu a rekonsolidaci daňových úlev způsobilo nejistotu a zrušení *sunset provision* by ji mohlo pouze zvýšit a dokonce vyvolat finanční obavy z nestabilního daňového systému.

Obamova administrativa zastává názor, že snížení daní v rámci střední třídy je nezbytné k postupnému ozdravení ekonomiky, protože zabrání prudkému poklesu použitelného příjmu spotřebitelů. Jiní dočasné prodloužení snížení daní u střední třídy a umožnění zániku snížení daní skupin s vyššími příjmy, jak bylo určeno v *sunset provisions*, odmítají.

Jednou z možností by bylo prodloužit na omezenou dobu snížení všech daní provedených za Bushovy administrativy, což by poskytlo Kongresu a Senátu čas potřebný k překonání problémů s neudržitelnou tendencí k vytváření deficitů a dluhů a k nalezení konečného řešení, které by přineslo do systému jistotu. Hlavním cílem je nalézt řešení s dlouhodobým efektem.

Shrnutí zákona o ekonomickém růstu a rekonsolidaci daňových úlev

Zákon o ekonomickém růstu a rekonsolidaci daňových úlev byl impulsem pro krátkodobé výdaje a snížil daňovou povinnost pro všechny skupiny daňových poplatníků. Byl to způsob, kterým se vyřešila situace v roce 2001, a možná by se jednalo o dobrý způsob, pokud by se neobjevily jisté události, které vedly k narušení ekonomiky. Podle mého názoru je rozhodnutí o dvouletém prodloužení účinnosti zákona o ekonomickém růstu a rekonsolidaci daňových úlev, které bylo neoficiálně přijato na počátku prosince 2010, tím nejrozumnějším, jelikož by nedošlo k diskriminaci žádné skupiny daňových poplatníků. Nezbývá než doufat, že během těchto dvou let dojde k vyřešení situace se změnou daňového systému, které bude dobře promyšleno, bude dlouhodobé a poučí se z chyb současného systému.

ZÁVĚR

Hlavním účelem této diplomové práce bylo poukázat na složitost systému daně z příjmu fyzických osob ve Spojených státech amerických, a to objasněním daňového systému a hlavních změn ve zdanění příjmu fyzických osob během posledních deseti let pod vlivem zákona o ekonomickém růstu a rekonsolidaci daňových úlev, který byl přijat v roce 2001.

Systém zdanění příjmu fyzických osob tak, jak ho známe dnes, se do své současné podoby vypracoval cestou velmi komplikovaného historického vývoje, kde každá větší událost či změna zanechala v jeho struktuře znatelnou stopu.

Struktura a celý proces výpočtu konkrétní výše daně jsou pro každého daňového poplatníka velmi komplikované. Cíl systému odpočtů a daňových úlev je nastaven zcela odlišným způsobem, než jaký je záměr celého daňového systému. Zdá se, že je vytvořen tak, aby byl kompromisem mezi získáváním peněz od daňových poplatníků na fungování státu (a prakticky na to, aby nebyly vytvářeny čím dál vyšší dluhy) a vrácením peněz zpět lidem tak, aby podpořil a přitom nezpomalil ekonomiku, nebo aby vyvedl zemi z recese. Systém daně z příjmu fyzických osob fungující ve Spojených státech a jeho strukturu nelze popsat jako vyvážené, tím správným charakteristickým pojmem by mohla spíše být nerozhodnost. Daně představují hlavní bod všech volebních kampaní a vzhledem k tomu, že se ve vládnutí střídají dvě strany, odráží systém daně z příjmu fyzických osob právě tyto změny.

Systém daně z příjmu na úrovni států se od toho na federální úrovni zásadně neliší. Zvláštnosti daňových systémů jednotlivých států spočívají zejména ve výpočtu daní a jejich implementaci. Stát Maryland slouží z hlediska své zeměpisné polohy, velikosti a podobnosti se sousedními státy jako dobrý příklad.

Změny systému daní z příjmu fyzických osob na federální úrovni jsou v období posledních deseti let více než významné. Jejich cílem bylo v krátkém čase podpořit ekonomiku Spojených států a příliš nepoškodit úroveň národního dluhu. Bohužel důsledky zákona o ekonomickém růstu a rekonstrukci daňových úlev nemohou být hodnoceny neutrálně; nejméně dvě význačné události na ně měly vliv. Rozhodnutí, které by mělo být v nejbližší době přijato, považuji za rozumné. Země potřebuje další čas, aby se mohla zotavit z recese a přehodnotit budoucí vývoj daňového systému.

Systém daně z příjmu fyzických osob se postupně vyvíjel a jeho změny jej učinily pro jednotlivé daňové poplatníky nepřehledným. Naneštěstí, vzhledem k tomu, že posláním daňového systému je sloužit ne daňovým poplatníkům, ale státu, lze jen těžko očekávat jeho zjednodušení.

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13. ABSTRACTS

English abstract

Personal income taxation in the United States of America on Federal and State Level

The main aim of this thesis is to show the complexity of personal income taxation in the United States of America, by explaining the system of taxation and the main changes of the personal income taxation for the last ten years, under the influence of Economic Growth and Tax Relief Reconciliation Act, which was passed in year 2001.

The system of this work is divided into four main parts. The role of the first part is to show the history of the taxation which led to the today's personal income taxation system, followed by second part with the explanation of system of the personal income tax of individuals, shown in details with the differentiated statuses of subjects, deductions, progressive tax brackets and tax credit for the taxpayers. The third part shortly describes personal income taxation system in the state of Maryland to show a different layer of the taxation system with its rules. The fourth part reflects the changes of the tax system in the last decade, which were brought by EGTRRA, with its affects on various groups of taxpayers and the effect on the economy of the country. These four parts together should create a picture of the system and its functioning of the personal income taxation in the United States of America.

Český abstrakt

Daň z příjmu fyzických osob v Spojených státech amerických na federální a státní úrovni

Hlavním účelem této diplomové práce bylo poukázat na složitost systému daně z příjmu fyzických osob ve Spojených státech amerických, a to objasněním daňového systému a hlavních změn ve zdanění příjmu fyzických osob během posledních deseti let pod vlivem zákona o ekonomickém růstu a rekonstrukci daňových úlev, který byl přijat v roce 2001.

Diplomová práce je rozdělena do čtyř hlavních částí. Účelem první části je představit

vývoj systému zdanění příjmu fyzických osob do té podoby, ve které ho známe v současné době. Druhá část práce charakterizuje systém daně z příjmu fyzických osob a zabývá se podrobným popisem odlišného postavení jednotlivých subjektů, odpočtů, progresivních daňových pásem a daňových úlev pro daňové poplatníky. Třetí část se stručně věnuje systému zdanění příjmu fyzických osob ve státě Maryland, a ukazuje tak další vrstvu daňového systému s vlastními pravidly. Čtvrtá část reflektuje změny daňového systému, které se uskutečnily v posledních deseti letech a které měly charakteristické důsledky pro různé skupiny daňových poplatníků a ovlivnily i ekonomickou situaci země. Výše uvedené části dohromady vytváří obraz o systému zdanění příjmu fyzických osob ve Spojených státech amerických a jeho fungování.

14. APPENDIX

APPENDIX NO.1 - CHARTS

Chart no.1 – Filing requirements for each filing status

Filing status	Age	Minimum gross income
single	under 65	\$9.350
	65 or older	\$10.750
married filing jointly	under 65 or older (both spouses)	\$18.700
	65 or older (one spouse)	\$19.800
	65 or older (both spouses)	\$20.900
married filing separately	any age	\$3.650
head of household	under 65	\$12.000
	65 or older	\$13.400
Qualifying widower with dependent child	under 65	\$15.050
	65 or older	\$16.150

Chart no.2 – Amounts of standard deductions

Year	Filing status				
	Single	Married Filing Jointly	Married filing separately	Head of household	Qualifying widow(er)
2010	\$5.700	\$11.400	\$5.700	\$8.400	\$11.400
2009	\$5.700	\$11.400	\$5.700	\$8.350	\$11.400
2008	\$5.450	\$10.900	\$5.450	\$8.000	\$10.900
2007	\$5.350	\$10.700	\$5.350	\$7.850	\$10.700
2006	\$5.150	\$10.300	\$5.150	\$7.550	\$10.300

Chart no. 3 Figures of Alternative Minimum Tax amounts for 2009

Status	Single	Married Joint	Married Separate
Tax Rate: Low	26%	26%	26%
Tax Rate: High	28%	28%	28%
High Rate starts	\$175.000	\$175.000	\$87.500
Exemption	\$46.700	\$70.950	\$35.475
Exemption Phase Out starts at	\$112.500	\$150.000	\$75.000
Zero exemption at	\$299.300	\$433.800	\$216.000
Capital gain rate	25%	25%	25%

Chart no. 4 - Tax brackets for 2009 tax year

Marginal Tax Rate	Single	Married Filing Jointly or Qualified Widow(er)	Married Filing Separately	Head of Household
10%	\$0 - \$8.350	\$0 - \$16.700	\$0 - \$8.350	\$0 - \$11.950
15%	\$8.351 - \$33.950	\$16.701 - \$67.900	\$8.351 - \$33.950	\$11.951 - \$45.500
25%	\$33.951 - \$82.250	\$67.901 - \$137.050	\$33.951 - \$68.525	\$45.501 - \$117.450
28%	\$82.251 - \$171.550	\$137.051 - \$208.850	\$68.525 - \$104.425	\$117.451 - \$190.200
33%	\$171.551 - \$372.950	\$208.851 - \$372.950	\$104.426 - \$186.475	\$190.201 - \$372.950
35%	\$372.951+	\$372.951+	\$186.476+	\$372.951+

Chart no. 5 - Tax brackets for 2010 tax year

Marginal Tax Rate	Single	Married Filing Jointly or Qualified Widow(er)	Married Filing Separately	Head of Household
10%	\$0 - \$8.375	\$0 - \$16.750	\$0 - \$8.375	\$0 - \$11.950
15%	\$8.376 - \$34.000	\$16.751 - \$68.000	\$8.376 - \$34.000	\$11.951 - \$45.550
25%	\$34.001 - \$82.400	\$68.001 - \$137.300	\$34.001 - \$68.650	\$45.551 - \$117.650
28%	\$82.401 - \$171.850	\$137.301 - \$209.250	\$68.651 - \$104.625	\$117.651 - \$190.550
33%	\$171.851 - \$373.650	\$209.251 - \$373.650	\$104.626 - \$186.825	\$190.551 - \$373.650
35%	\$373.651+	\$373.651+	\$186.826+	\$373.651+

Chart no. 6 - requirement to file a state personal income tax return

Filing Status	Gross income
Single	
Under 65	\$ 9.350
65 or older	\$ 10.750
Head of Household	
Under 65	\$ 12.000
65 or older	\$ 13.400
Married Filing Jointly	
Both under 65	\$ 18.700
One spouse 65 or older	\$ 19.800
Both 65 or older	\$ 20.900
Married Filing Separately	
All (regardless of age)	\$ 3.650
Qualifying Widow(er)	
Under 65	\$ 15.050
65 or older	\$16.150
Dependent Taxpayer	
A single person who can be claimed as a dependent on the federal return of parent or other person	\$ 9.350

Chart no. 7 - 2010 Maryland income tax rates.

2010 Maryland Income Tax Rates			
Taxpayers Filing as Single, Married Filing Separately, Dependent Taxpayers		Taxpayers Filing Joint Returns, Head of Household, or Qualifying Widow/Widowers	
Taxable Net Income	Maryland Tax	Taxable Net Income	Maryland Tax
\$ 0 - \$ 1.000	2%	\$ 0 - \$ 1.000	2%
\$ 1.000 – \$ 2.000	\$ 20 plus 3% of the excess over \$ 1.000	\$ 1.000 – \$ 2.000	\$ 20 plus 3% of the excess over \$ 1.000
\$ 2.000 – \$ 3.000	\$ 50 plus 4% of the excess over \$ 2.000	\$ 2.000 – \$ 3.000	\$ 50 plus 4% of the excess over \$ 2.000
\$ 3.000 – \$ 150.000	\$ 90 plus 4.75% of the excess over \$ 3.000	\$ 3.000 – \$ 200.000	\$ 90 plus 4.75% of the excess over \$ 3.000
\$ 150.000 – \$ 300.000	\$ 7.072 plus 5% of the excess over \$ 150.000	\$ 200.000 – \$ 350.000	\$ 9.447,50 plus 5% of the excess over \$ 200.000
\$ 300.000 – \$ 500.000	\$ 14.572,50 plus 5.25% of the excess over \$ 300.000	\$ 350.000 – \$ 500.000	\$ 16.947,50 plus 5.25% of the excess over \$ 350.000
\$ 500.000 – \$ 1 million	\$ 25.072,50 plus 5.5% of the excess over \$ 500.000	\$ 500.000 – \$ 1 million	\$ 24.822,50 plus 5.5% of the excess over \$ 500.000
Excess of \$ 1 million	\$ 52.572,50 plus 6.25% of the excess over \$ 1 million	Excess of \$ 1 million	\$ 52.322,50 plus 6.25% of the excess over \$ 1 million