

ALERT

How will President-Elect Obama's Tax Plan Affect MY Taxes?

With the current turbulent financial situation and a new chief executive preparing to take the oath of office in just over two months, many of us are wondering what impact our new President will have on our taxes.

Individuals President Elect Obama's campaign promise was that families earning less than \$250,000 should pay no additional federal taxes. However, for those families earning more than \$250,000, he has proposed direct federal tax changes including:

- **Increased Tax Rates on Ordinary Income** - Returning the top two income tax brackets to 36% and 39.6%, and returning the personal exemption and itemized deduction phase-outs to their 1990s levels.
- **Capital Gains** - Setting a new top capital gains rate of 20%.
- **Dividends** - Excluding dividends from ordinary income and setting a new top rate at 20%.

Other items of importance for individuals:

- **Alternative Minimum Tax.** He has proposed extending the 2007 AMT patch and indexing the exemption for inflation.
- **Marriage Penalty.** He has indicated his support for making marriage penalty relief permanent.
- **Social Security Taxes.** He has proposed a payroll tax of 4% (2% from the employee and 2% from the employer) on higher income individuals.
- **Estate Tax.** His proposal is that the estate exemption should be set at \$3.5 Million (\$7 Million per couple) with a 45% tax rate.

During his campaign, President Elect Obama also discussed numerous tax breaks and credits for middle class families. The availability of his proposals may be eliminated based on income phase-outs for many taxpayers, but he has previously discussed numerous items including:

- A refundable **Making Work Pay Tax Credit** of \$500 for workers or \$1,000 for working couples.
- A \$4,000 fully refundable **American Opportunity Tax Credit** to cover 100% of the first \$4,000 of qualified tuition expenses.

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- **Elimination of Income Taxation for Seniors making less than \$50,000 per year.**
- An increase in the availability of the **Earned Income Tax Credit.**
- **Increased Tax Benefits for Child Care.**
- **Expanded Tax Credits for Clean Vehicles.**

Businesses His campaign proposals regarding business taxes mentioned as revenue raisers:

- Clarifying the **economic substance doctrine** and **increasing reporting of capital gains** to close the tax gap;
- Repealing special expensing rules, foreign tax credit benefits, and manufacturing deductions for **oil and gas firms**;
- Taxing **carried interest** as ordinary income, and addressing the tax treatment of **CEO pay**; and
- Working with Congress to enact legislation giving the Treasury and IRS additional tools to prevent the use of **international tax havens** for improper tax avoidance or tax evasion.

President Elect Obama also made the following pledges regarding small business growth and the creation of US jobs:

- **Elimination of Capital Gains Taxes for Entrepreneurs and Investors in Small Business** - Barack Obama has promised to eliminate all capital gains taxes on investments in small and start up firms.
- **Cutting Corporate Tax Rates for Firms that Create Jobs in America** - He has promised lower corporate tax rates for companies that expand or start operations in the United States which will be funded by additional taxes on corporations that retain their earnings overseas.
- **Small Business Healthcare Tax Credit** - To help small businesses compete he has promised a new refundable 50 percent health tax credit on employee premiums paid by employers.
- **Making the R&D Tax Credit Permanent** - He has promised to make the Research and Development tax credit permanent so that firms can rely on it when making decisions to invest in domestic R&D over multiyear timeframes.

The above represent the tax positions announced by President Elect Barack Obama during his campaign. However, the tax changes that will actually occur during his term of office will depend on numerous factors including the direction of our economy and the tax bills passed by Congress. So please, for now take the above under advice as potential tax trends. However, if the above positions cause you specific concern regarding your tax situation, a transaction or change you are considering, please contact your LBA professional and we will be glad to work with you to address your concern.