

President Obama's Tax Proposals

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Taxes on high-income earners would rise by nearly \$1 trillion over the next 10 years, under the budget plan recently put forward by President Barack Obama.

The bulk of that increase comes as a result of the expiration, at the end of 2010, of the tax cuts enacted under President George W. Bush.

Income Taxes

In 2001, the top two income-tax rates affecting individuals earning more than \$200,000 a year, or \$250,000 for married couples, will return to 36% and 39.6%, from 33% and 35% now.

Capital Gains

Under the proposed budget plan, capital gains and dividends would be taxed at 20% tax rates, up from 15% now, for people with incomes falling in the top two brackets. Mr. Obama would extend the Bush tax cuts, including the 15% rate on capital gains and dividends, for single taxpayers making less than \$200,000 and couples earning less than \$250,000.

Exemptions/Deductions

Limits on upper-income person's ability to claim personal exemptions and itemized deductions will also return to pre-Bush levels, without any action needed from Congress. But as in last year's budget, Mr. Obama proposes to go further by limiting the value of those benefits, which include deductions for mortgage interest and some charitable contributions. The highest-income earners under current law can lower their taxes by up to 39.6% of those deductions; under the new proposal, that would be reduced to 28%.

The Obama recommendation to lower the limit on itemized deductions stalled in Congress last year amid strong resistance from the Democratic and Republican lawmakers. It is also opposed by a battery of interests including realtors and charities.

Estate Taxes

Mr. Obama proposes reinstating the federal estate tax, which was repealed for one year on January 1st this year, at the rates and levels in effect last year, or 45% tax rate, with an exemption for estates under \$3.5 million. The proposal would make the changes permanent.

He also proposes putting limits on the use of family trusts that have helped wealthy families lower their estate-tax liabilities, which the White House estimates would increase government revenue by \$23.7 billion over 10 years.

Middle Class Cuts

He dropped a request to make permanent the payroll tax credit that fattened worker paychecks by \$400 per person in 2010. In his budget blueprint, Mr. Obama proposed

extending only through 2012 that credit, which was his signature tax-cut proposal for middle-class workers during his campaign.

Other tax cuts aimed at helping low and middle income people were also proposed. Those include a doubling of the child care tax credit, and an expansion of the federal matching contribution for low income workers.

Fund Manager's Profits

Under the proposals, fund managers would see their partnership profits taxed at ordinary income rates, rather than the lower capital-gains rate. That plan - also proposed in last year's budget - passed in the House but has had trouble getting off the ground in the Senate, where lawmakers of both parties worry that a tax increase on so-called carried interest could harm entrepreneurship and investment. Supporters of the President's plan say it is unfair that fund managers' income should be taxed at a lower rate than wages.