



CERTIFIED PUBLIC ACCOUNTANTS

# Tax Update

# President Obama's Wish List

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Please remember what we discuss today are only proposals by President Obama's administration and no laws have been passed

# Agenda

## Highlights

- Rate Hikes for Upper-Brackets
- Dividends Retain Favored Rates
- Expanded NOL Carrybacks
- Tax-Free Gain on Small Business Stock
- Major International Tax Changes
- LIFO Repeal
- Increased Reporting Requirements
- Estate Tax Extension

# General

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- Administration's proposal for Fiscal Year 2010
- Green Book is the administration's roadmap for congressional action
- Proposals would generate \$736.5 billion in tax savings for middle-class
- \$71 billion in long-term savings for business
- \$900 billion in revenue raisers

# Individuals

- Making Work Pay Credit – make credit permanent
  - \$400 credit single taxpayers
  - \$800 married taxpayers
  - AGI phase-out
    - \$75,000 to \$95,000 individuals
    - \$150,000 to \$190,000 for married
- Tax Rates
  - After 2010 – 10, 15, 25, 28 rates to stay
  - Reinstate old rates 36% and 39.6%
  - New rates for income over
    - \$200,000 individuals
    - \$250,000 married
  - Raise \$319.5 billion over 10 years

# Individuals

- Capital Gains and Dividends
  - Current rate of 15%
  - New rate of 20%
    - For individuals in 36% and 39.6% rate
    - Expected year of change – 2011
- AMT Patch
  - Current patch good for only 2009
  - Proposal to extend into 2010
  - Prospect for repeal dim
- PEASE Limitation
  - Phase-out of itemized deductions to expire end of this year
  - Extend phase-out indefinitely for income over \$200,000 for individuals and \$250,000 for married
  - AGI floors will be inflation adjusted

# Individuals

- Personal Exemption Phase-out
  - Reinstate phase-out for incomes above \$200,000 single and \$250,000 for married
- Impact of PEASE and Personal Exemption Phase-out creates a “bubble rate” or increase percentages at 36% and 39.6% rates. Result actual income tax rates at highest bracket is greater than 40%.
  - Consider Hawaii highest income tax rate is now 11%
- State and Local Sales Tax Deduction – Extend to 12/31/2010

# Retirement Planning

- Automatic Enrollment in IRA's – Employer's must offer automatic 401(k) plans via payroll deductions
  - Employers would be eligible for a temporary credit of \$250 per employee to help defray costs
- Saver's Credit – Individuals to receive a non-refundable credit up to \$1,000 for contributions to an IRA plan.
  - AGI limitation of \$32,500 for individuals and \$65,000 for married
  - Government would allow 50% of credit to be contributed to IRA plan as a match

# Business Tax Incentives

- Net Operating Loss Carryback – current rule 5 year carryback for business with less than \$15 million or less of gross receipts over a 3 year average for 2008 tax years
  - Proposal to expand to NOL Carryback to companies with greater than \$15 million of gross receipts
- Qualified Small Business Stock
  - Small C corporations to raise capital by selling a company stock
  - Qualifying individuals can exclude 75% of their gains
  - Proposal would increase exclusion up to 100%

# Business Tax Incentives

- Research Tax Credit – is currently renewed on an annually basis
  - Proposal to make R&D credit permanent
- Extenders – these sunset in 2009
  - Exempt Organization payments to controlling entities
  - New Markets Tax Credit
  - 15 year depreciation for Qualified Leasehold Improvements
  - Qualified Restaurant improvements 15 years
  - Empowerment and community renewal zones
  - Credits for Bio-diesel and Renewable diesel fuels

# Business Tax Incentives

- Extenders – these sunset in 2009
  - Teachers classroom expense deduction of \$250
  - Higher Education deduction
  - Tax-free charitable distributions from IRA
  - Temporary suspension of required minimum distributions
  - Enhanced charitable deduction for C corps for computer technology
  - First Time homebuyers credit
  - New vehicle sales credit deduction
  - COBRA premium assistance
  - \$2,400 exclusion for unemployment benefits
  - Additional Real Property Tax deductions for non-itemizers

# International Tax

- Sweeping Reforms in this area
- 4 Major measures that add up to \$210 billion in revenue
  - Mandatory deferrals of deductions associated with foreign source income not currently subject to U.S. taxes
  - Foreign tax credit based upon earning repatriated and not earned
  - Matching of foreign tax credits with associated income
  - Required check the box election for corporation status for certain “disregarded entities”

# LIFO Repeal

- Repeal Last In First Out method of accounting for inventory
  - Taxpayers would recognize built-up LIFO reserves on a pro-rate basis over 8 years.
  - LIFO generally used when inventory costs increase over time

# Lower-of-Cost or Market

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- Repeal Lower-of-cost or market adjustments for inventory
- Would prohibit companies from writing down the taxable value of inventories to reflect market conditions
- 4 year section 481 adjustment

# Increased Reporting

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- 1099 for corporate payments more than \$600
- Require State and local governments to provide information reporting to IRS on business that provide services
- Double penalties on failure to file information reporting
- E-filing of corporate tax returns with total assets of more than \$10 million of assets.
  - \$25,000 penalty for corporation
  - \$5,000 penalty for tax exempts

# Estate and Gift

- Current law estate and gift tax will expire at the end of this year
- Proposal extend current estate and gift rules (one-yr ext)
  - \$3.5 million exemption
  - 45% rate
  - \$1 million gift exemption
- Grantor Retained Annuity Trusts (GRATS) – increase minimum term to 10 years (currently low as 2 years)

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# Questions?

Presentation at  
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