



VISIT WITH YOUR TAX
PROFESSIONAL AND
START PLANNING
FOR CHANGES TO THE
TAX LAWS AND MORE
IMPORTANTLY, TAKE
ADVANTAGE OF THE
EXISTING TAX LAWS
BEFORE CHANGE
HAPPENS.

IT MIGHT BE, IT COULD BE

A SUMMARY OF THE CANDIDATES' PROPOSED TAX PLANS

The political conventions are over, the nominees are official, and the commercials have started. Tax and fiscal policy will loom large in the next president's domestic policy agenda. Nearly all of the tax cuts enacted since 2001 expire at the end of 2010. Currently, the individual alternative minimum tax (AMT) subjects tens of millions of Americans to complexity and higher taxes, and an agreeable, nonpartisan fix has proven elusive. In addition the housing crisis, the ballooning federal deficit and projected problems with Social Security, Medicare, and Medicaid will increase demands on federal government revenue sources in the coming years.

Nonetheless, both candidates have proposed major changes to the nation's tax laws. In several important ways, the candidates' speeches and Web sites differ from the descriptions of proposals provided by the candidates' own campaign advisors and many important details of both plans are not known. Therefore, identifying and addressing specific tax changes is still somewhat premature. That being said, we will identify and compare several proposed general and specific policies of both candidates.

Senator McCain's tax cuts would primarily benefit those with higher incomes, almost all of whom would see their after-tax incomes rise by more than twice the average for all households. Senator Obama proposes much larger tax breaks to low- and middle-income taxpayers and would increase taxes on high-income taxpayers. Under Senator McCain's proposed policies, the top marginal rates of 35% on individual income and 25% on corporate income would be significantly lower than under Senator Obama's plan, 39.6% on individual income and 35% on corporate income.

2001/2003 TAX CUTS

Senator McCain has proposed making the 2001 and 2003 tax cuts permanent, with the exception of the estate tax. This would include the 10% tax bracket on income, the capital gains rates staying at 0% and 15%, the increased child credit, and the standard deduction for married couples at double the amount for single filers.

Senator Obama has called for extending the 10% tax rate, as well as the lower tax rates on capital gains and dividends for taxpayers in the 10, 15, 25, and 28 percent tax brackets. The maximum rate on capital gains and dividends would increase to 20% for taxpayers with adjusted gross income over \$250,000 for married couples and \$200,000 for others.

AMT PATCH

Both propose to extend the AMT patch of higher exemption amounts and the allowing of nonrefundable credits against AMT. No other details have been proposed.

ESTATE TAX

Senator McCain has proposed a permanent reduction of the tax in 2010 by increasing the exemption to \$5 million and reducing the top tax rate from 45% to 15%.

Senator Obama's plan would permanently fix the estate tax exemption at \$3.5 million, with a top rate of 45%.

Both would make permanent the deduction for estate taxes paid to states rather than restore the credit that formally applied.

MISCELLANEOUS INDIVIDUAL TAX AND TAX CREDIT PROVISIONS

Senator Obama proposes various new and expanded individual tax credits such as a "Making Work Pay Credit" of 6.2% of up to a maximum of \$8,100 of earnings for each taxpayer, an expanded Earned Income Tax Credit, a "Universal Mortgage Credit" for nonitemizers, and an increase to the Hope credit of up to \$1,000.

Senator Obama proposes to exempt seniors earning less than \$50,000 from income taxation if the primary taxpayer, and spouse for married couples, is age 65 or older.

Senator McCain proposes to increase the dependent exemption by two-thirds, phased out for higher income taxpayers.

CORPORATE INCOME TAX

Senator McCain proposes to eliminate the surtaxes and the 35% bracket immediately and phase down the 34% rate to 30% in 2010, 28% in 2012, 26% in 2014 and 25% percent thereafter.

Senator McCain proposes to allow businesses to deduct in the year placed in service the full cost of three- and five-year business equipment, such as vehicles, software and computers, purchased between 2009 and 2013. However, Senator McCain's proposal would eliminate the interest deduction on debt used to finance equipment purchases that qualify for the immediate expensing.

Senator McCain proposes repealing the domestic production activities deduction, which under current law allows U.S. companies to reduce taxable income attributable to qualifying domestic production activities.

Senator McCain has proposed making the research credit permanent and equal to 10% of all wages spent on research and development.

Senator McCain has proposed replacing the current exclusion from income tax for health insurance provided by an employer with a refundable tax credit of \$2,500 for singles and \$5,000 for family coverage. The credit would be available for both privately purchased and employer-provided insurance.

Senator Obama has proposed making permanent both the research credit and the renewable energy production credit.

Senator Obama has proposed reestablishing the Social Security tax for both employers and employees on wages in excess of \$250,000. However, the rate of tax has differed in speeches, outlines, and campaign disclosures.

As one can see there is some common ground between the two plans. Both candidates propose that the elements of the 2001 and 2003 tax cuts primarily affecting those with incomes below \$250,000 should be extended, the estate tax should be substantially reduced but not repealed, and that the research credit should be made permanent. Both candidates would continue to limit the number of taxpayers affected by the AMT but would not repeal it.

So what do we know for sure? After studying the various proposals and given the fact that the candidates' speeches often differ from their plans as proposed by their own campaigns, I'm reminded of the immortal Harry Caray, former Chicago Cub baseball announcer, and how he started his famous home run call "It might be. It could be..." All that we know for sure is that it is not too early to visit with your tax professional and start planning for changes to the tax laws and more importantly, take advantage of the existing tax laws before change happens.



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