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Tax Provisions in President Obama's Budget Proposal; Expiring Tax Provisions

The following is a brief summary of certain tax provisions included in President Obama's budget proposal. Following this summary is a list of certain tax provisions that expired at the end of 2009 or will expire at the end of 2010 if Congress doesn't act to extend them.

Tax proposals relating to individuals

- Reinstating in 2011 the 36% tax rate for married taxpayers with taxable income above $250,000 ($200,000 for single taxpayers) and the 39.6% tax rate for all taxpayers with taxable income above $373,650.
- Beginning in 2011, a maximum 20% tax rate would apply to long-term capital gains and qualified dividends.
- Reinstating in 2011 the reduction of itemized deductions and the personal exemption phaseout for higher income taxpayers.
- Beginning in 2011, limiting the tax value of all itemized deductions to 28%. A similar limitation also would apply under the AMT.

Business-related tax proposals

- Providing a tax credit of up to $5,000 for new workers added in 2010, plus a reimbursement for payroll taxes on wage increases.
- Extending temporary increase in expensing of capital expenses by small businesses.
- Extending bonus first-year depreciation.

- Providing an additional $5 billion in tax credits for investment in advanced energy manufacturing projects.

- Eliminating the capital gains tax on sales of qualified small business stock held for at least five years, effective for stock acquired after Feb. 17, 2009.

- Making permanent the research credit.

- Repealing the lower-of-cost-or-market inventory accounting method.

- Repealing the LIFO accounting method for inventories.

- Extending the Subpart F "active financing" and "look-through" exceptions.

- Extending the modified recovery period for qualified leasehold improvements and qualified restaurant property.

- Making permanent the 0.2% unemployment insurance surtax.

- Imposing an approximately 0.15% "Financial Crisis Responsibility Fee" to cover TARP expenses, levied generally on the liabilities of certain firms with more than $50 billion in assets.

- Repealing the "boot-within-gain" limitation for corporate reorganization exchanges that have the effect of the distribution of a dividend .

"Loophole closers"

- Denying a tax deduction for punitive damage payments.

- Codifying the "economic substance doctrine."

- Taxing carried (profits) interests as ordinary income.

Estate and gift tax proposals

- Require consistent property valuation for estate, gift and income tax purposes.

- Modifying rules on valuation discounts.
- Extending estate, gift, and generation-skipping transfer (GST) taxes at the levels in effect for calendar year 2009 (a top rate of 45% and an exemption amount of $3.5 million).
- Requiring grantor retained annuity trusts (GRATs) to have a minimum term of ten years.

Expiring or expired tax provisions

- Reduced maximum 15% capital gains rate (the maximum tax rate will return to 20% in 2011).
- Qualified dividends taxed at capital gains rates (dividends will be taxed at normal ordinary income tax rates starting in 2011) .
- Deferral and ratable inclusion of cancellation of indebtedness income of businesses (expiring 12/31/10).
- Special rules for qualified small business stock (expiring 12/31/10).
- Reduction in S corporation recognition period for built-in gains tax (the recognition period returns to 10 years from 7 years beginning in 2011).
- Modified recovery period for qualified leasehold improvements and qualified restaurant property (expired 12/31/09).
- Increase in expensing of capital expenses by small businesses (expired 12/31/09).
- Bonus first-year depreciation (expired 12/31/09).
- Special expensing rules for certain film and television productions (expired 12/31/09).
- Research credit (expired 12/31/09).

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