

EMERGENCY YEAR END TAX PLANNING

Presented by:

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- This presentation assumes we are dealing with individual income tax taxpayers earning over \$200,000 and married taxpayers earning over \$250,000. It also assumes that at least one of the taxpayers has wages (or self employment income) of at least \$200,000 included in their total income.

Individual Income Tax Rates

Top federal income tax rate will be increased from 35% to 39.6%

This increased rate, when combined with Personal Exemption Phaseout (“PEP”) and the Itemized Deduction Limitation (the “Pease Limitation”) will raise the maximum rate to over 40%.

Assumptions for \$200,000 & \$250,000 income levels

- Obama and his supporters have made disclosures regarding whether these threshold amounts represent taxable income, adjusted gross income or gross income for federal income tax purposes.
- It is now almost universally accepted that the changes will take place retroactively to January 1, 2009.

Alternative minimum tax

- Commentators are mixed on the impact of AMT for our group of taxpayers. As the rate of regular income tax is increasing 14% from 35% to 40% the effect of AMT should correspondingly decrease as the rate of AMT is not scheduled to increase.

Capital Gains & Dividends

- The current tax rate of 15% for capital gains and dividends will increase to a maximum rate of 20%.
- It is interesting to see how this works into the phase in and out of the taxability of social security benefits for older single Americans. Under current law single retirees receiving Social Security who earn between \$30,000 and \$50,000 pay income tax at a rate of 50% because of the phantom tax on social security earnings.

Retirement Income

- Obama has stated that seniors earning less than \$50,000 will pay no income tax. I don't see how this will mesh with the previous page and no explanation has been provided.
- Other than the changes set forth in the previous slides, there are no noteworthy changes.

Business income tax

- Obama has stated that he is interested in lowering the corporate income tax which is the second highest in the industrialized world provided certain “loopholes” are closed. Only God and Obama know of what loopholes he speaks because none have been made public. Presumably he is going to hammer those businesses that outsource jobs to foreign countries.

Estate Tax

- Currently Obama has expressed interest in keeping the estate tax exemption amount at \$3,500,000 per person.
- The tax rate would remain at 45%.
- There has been no discussion of the gift tax \$1,000,000 exclusion.

Self Employment Tax

- Obama has on many occasions suggested that the major changes will be made to FICA including, at a minimum, an increase in the FICA OASDI wage base from its current level.
- He has proposals ranging from a low of an additional 4% of self employment tax on wages above the OASDI wage base to \$500,000 to a high of a complete elimination of the OASDI wage base thereby taxing all self employment and wage income.

Energy Proposals

- It looks like the environmental lobby is going to get significant tax incentives under the Obama administration. Can anyone remember all of the tax shelters that came about as a consequence of the last big round of renewable energy credits? My belief is that there will be big tax breaks for wind, solar, biomass and other alternative energy money losing ventures. They will be tax shelters by definitions as without the tax credits they simply won't produce a profit. Be on the look out for some significant opportunities and some big scoundrels in the area.

Planning opportunities?

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Thanks for attending.

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