



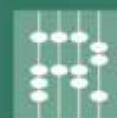
# Major Tax Changes for Businesses and Individuals Proposed in FY 2010 Budget

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Reznick Group Tax Practice

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"A New Era of Responsibility: Renewing America's Promise," the Administration's preview of its FY 2010 budget, is available at <http://www.omb.gov>

On Feb. 26, 2009, the Obama Administration released "A New Era of Responsibility: Renewing America's Promise." It is the Administration's preview of its fiscal policies and planned major budgetary initiatives. It also provides an overview of the full FY 2010 budget expected to be released.

The document reveals major tax initiatives that the Obama Administration will push. It contains a combination of so-called "loophole closers," a few more favorable tax changes for businesses and higher taxes for those called "higher income individuals," in addition to tax cuts for other individuals. The tax changes proposed include the following (with the year in parenthesis to indicate when the change is slated to begin):

#### **Changes for Business Taxes**

- Making the research tax credit permanent (2010)
- Expanding the net operating loss (NOL) carryback (2011)
- Eliminating capital gains taxation on small business (2014)
- Repeal LIFO (2012)
- Codify the economic substance doctrine (2009)
- Require information reporting for rent payments (2010)
- Tax carried interest as ordinary income (2011)
- Reinstate Superfund Taxes (2011)
- Repeal the following oil and gas tax rules: expensing of intangible drilling costs;
- deduction for tertiary injectants; passive loss exception for working interests in oil and gas
- properties; manufacturing deduction for oil and gas companies; and percentage
- depletion (2011)

#### **Changes for Taxes on "Higher Income Individuals"**

These changes are proposed to apply to taxpayers earning over \$250,000 (married filing jointly) and \$200,000 (single):

- Reinstate the 36% and 39.6% top tax rates (2011)
- Reinstate personal exemption phase-out and limit of itemized deductions (2011)
- Impose a higher than current 20% tax rate on capital gains and dividends (2010)

The Administration's proposal separately includes a proposal to limit the tax rate at which higher income individuals can take itemized deductions to 28%. However, it gives no indication of when that change would take effect. Also, the Administration is widely expected to propose keeping the estate tax at some unspecified level which, under current law, will not apply for 2010 but will be reinstated at the 2001 level in the year 2011.

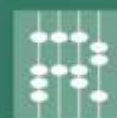
#### **Other Tax Changes for Individuals**

- Make permanent the recently passed Recovery Act's refundable \$400/\$800 "making work pay"
- Make permanent the Recovery Act's liberalized child tax credit rules
- Make permanent the Recovery Act's "New American Opportunity Tax Credit" for higher
- education expenses
- Eliminate the Advanced Earned Income Tax Credit (2010)
- Expand the saver's credit and automatic enrollment in IRAs and 401(k)s (2011)

The Obama Administration's document also discusses a proposal to establish "automatic workplace pensions on top of and clearly outside Social Security..." Under that proposal, employees would be automatically enrolled in workplace pension plans (unless they choose to opt out). Employers not offering such retirement plans would be required to enroll their employees in a direct-deposit IRA (with employees given an opt-out option of that as well).

If you have any questions, or want specific information on how tax changes proposed in the FY 2010 budget could impact you and your business, please contact your Reznick Group representative.

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