

# President's Proposed Budget Increases Taxes for Higher Income Individuals

President Barack Obama previewed his proposed 2010 budget on February 26, 2009, and it presents large tax increases on joint taxpayers earning more than \$250,000 (more than \$200,000 for singles). Some of these tax changes are projected for 2010, while others will not take hold until 2011.

Some of the proposals aimed at upper income filers include:

- The previous top 1040 tax rates of 36 and 39.6 percent under the Clinton-era will be restored, effective in 2011. Currently, the top brackets are 33 and 35 percent.
- Similarly, the flat rate that applies to capital gains and dividends will increase from 15 percent to 20 percent, effective in 2010.
- Personal exemptions for high-income taxpayers and their dependents will phase out as income exceeds the \$250,000/\$200,000 thresholds. Itemized deductions will partially phase out for high-income filers. Both of these provisions would be effective in 2011.
- High-income filers will be limited to a 28 percent tax deduction for charitable contributions.

“The overall direction of the budget suggests that high-income earners should consider accelerating gain transactions and other income recognition into 2009, ahead of these increases,” says Andy Biebl, tax principal with LarsonAllen.

## **Budget implications on capital gains**

Under the budget proposal, income—whether ordinary or capital gain—will be taxed at higher rates, and deductions will be diminished. A long-term capital gain taxed in 2009 at 15 percent avoids the one-third rate increase that is projected to occur in 2010 when capital gains move to 20 percent. Similarly, a large dividend from a closely held corporation, taxed today at 15 percent, might have merit.

## **How income is defined**

The budget is vague on how “income” is defined. It’s not clear on whether it is Adjusted Gross Income (AGI) on page one of the 1040 or taxable income after all deductions and exemptions. “Our view is that it’s likely to be adjusted gross, as it reaches a greater number of individuals,” says Biebl.

## **How can LarsonAllen help**

Please contact Jason Duffner or David Wiggins if you would like to explore income-acceleration tax strategies that make sense for your financial situation.

12801 Flushing Meadows Drive, Suite 100  
St. Louis, MO 63131  
314-336-3600, Fax 314-336-3650

**NOTICEABLY DIFFERENT**

