Taxes in the Time of Obama
How might things change?
May 4, 2009

In February, President Barack Obama rolled out his plan for the federal budget – a budget created with the vision of aiding the middle class and making health insurance available to more Americans. Since his campaign, he has also repeatedly vowed that taxes will not go up for families making less than $250,000 annually.[1]

Given this mission and that pledge, the question becomes: how will the federal government fund the President's sweeping social programs? If taxes won't rise for the middle class and working class, where will the money come from? The all-but-certain answer: from businesses and about 3 million of the highest-earning Americans.

Turning back the hands of time? In the President's conception, the sun would set on tax cuts given to high-income earners during the Bush years. Families earning more than $250,000 and individuals earning more than $200,000 would contend with the tax rates they faced during the Clinton administration.

The 2001 and 2003 tax cuts would expire in 2011. In 2011, the highest two tax brackets would return to 36% and 39.6%, and the capital gains tax rate would head back up to 20%. The Obama administration believes this could raise $637 billion over the coming decade.[2]

Will the estate tax stay the same? 2010 was to be the year of 0% estate tax – the great reprieve before estate taxes as high as 55% would hit in 2011. That was what was supposed to happen … but now it may not. President Obama wants the estate tax picture to remain as it is now, with estate tax rates of up to 45% kicking in above a $3.5 million exemption (which would be indexed to inflation for future years). In late April, a Senate proposal aimed to lower the estate tax rate and raise the exemption, but this fell by the wayside in budget negotiations with the House. So it appears the estate tax is here to stay, but it will apparently not reset to 2001 rates.[3,4]

How might things change for businesses? Among the ideas being considered: a requirement that investment partnerships pay regular income tax rates rather than capital gains tax rates; revoking methods of inventory accounting that can help to cut business taxes; and further restricting corporate options for automatic deferral of federal taxes on overseas income. Treasury Secretary Tim Geithner has claimed that planned tax increases would only affect about 2% of filers with business profits; the nonpartisan Joint Committee on Taxation puts the figure at 3%.[1]

Legislators call for compromises. On April 29, the House and Senate approved a $3.5-trillion outline of the proposed federal budget, but it did not include all of what the President wanted. (No Congressional Republicans voted for the budget resolution, and among them, Sen. John McCain denounced it as "generational theft".)[4]

An important tax-linked question wasn't answered: how to pick up the cost of making quality healthcare accessible to more Americans. The President wants to leave more money for that mission by capping tax deductions at 28% for families earning more than $250,000 a year, as opposed to the current 33% value. Charities and homebuilders would hate that idea, and figure to lobby Congress if it advances.[4]

The Obama administration also wanted to remove subsidies to farms with annual sales of more than $500,000, and have the opportunity to bill insurance companies for treatment of injuries linked to military service. Neither idea survived budget negotiations in Congress.[4]

Under the budget blueprint that was approved, the $400/$800 "Making Work Pay" tax credit – which Obama wanted to make permanent – would disappear after 2010.[4]

Citations.

[1] washingtonpost.com/wp-dyn/content/article/2009/04/26/AR2009042602838_pf.html [4/26/09]

[2] money.cnn.com/2009/02/26/news/economy/obama_budget_outline/index.htm?postversion=2009022619 [2/27/09]

[3] sfgate.com/cgi-bin/article.cgi?f=/c/a/2009/04/25/BUGE178HU6.DTL [4/25/09]

[4] latimes.com/news/la-na-budget30-2009apr30,0,5614049.story [4/30/09]