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biggest tax loopholes for the wealthy and redirecting benefits to the middle class., changing the Capital Gains tax, a second-earner credit, dependent care credit, and ...

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There were no major surprises for taxpayers in President Obama's State of the Union address on January 20. Details of the tax plan had been leaked over the weekend while the president provided the entire text of his speech online before he even stepped up to the podium. During the address, Obama briefly outlined his objectives for closing some of the biggest tax loopholes for the wealthy and redirecting benefits to the middle class.

Yet there's still plenty of intrigue surrounding tax reform. The White House released a fact sheet on January 17 pinpointing several major tax proposals issued by the president. Here are six provisions that could prove to be significant to individual taxpayers.

- 1. Capital gains and dividends:** Central to the overall tax plan is the president's proposal to raise the maximum tax rate on long-term capitals and qualified dividends to 28%, the same as it was during President Reagan's administration. Currently, the maximum tax rate for upper-income investors is 20%, plus some individuals must add on a 3.8% surtax.
- 2. Basis step-up:** Referring to the tax break for a stepped-up basis for trust inheritances as "perhaps the largest single loophole in the entire individual income tax code," the president would effectively treat bequests and gifts like other transactions, with certain protections. Capital gains would be subject to the maximum 28% tax rate (see #1). But no tax would be due for couples until the second spouse dies and each individual could bequeath up to \$100,000 tax-free.

3. **Second-earner credit:** A new credit of up to \$500 would be available to couples

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- income up to \$125,000.
5. **Higher education tax breaks:** The president's plan would consolidate six overlapping tax provisions for higher education into just two. Notably, the proposals would expand and enhance the American Opportunity Tax Credit (AOTC), which is scheduled to expire in 2017. The maximum AOTC would be \$2,500 for each of five years of study towards a college degree and be indexed for inflation on a permanent basis. All told, the plan would simplify and cut taxes for an estimated 8.5 million families.
 6. **Retirement savings:** The president has proposed a series of changes designed to improve retirement savings for workers. For instance, the plan would automatically enroll in an IRA certain taxpayers who don't otherwise have access to an employer-based plan, create tax cuts to employers adopting this IRA option or another auto-enrollment plan and provide access to employer plans to certain part-time workers. Finally, the President's plan would restrict benefits for wealthy individuals accumulating large sums in mega-IRAs. The balance for such IRAs would be capped at about \$3.4 million.

What are the chances that these tax proposals will sail through a Republican-controlled Congress? Some would say nonexistent. Nevertheless, the mood in the nation's capital is conducive to moving toward compromises that could result in meaningful tax legislation. We will keep an eye on these proposals as they wend their way through the process.

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