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It's unlikely that a sharply divided Congress will send President Obama off with parting gifts, but that didn't stop the nation's leader from including a "wish list" in the proposed budget for his final year in office. The proposals released on February 9 by the Obama administration include numerous tax provisions intended to increase

tax savings for Americans of low-to-moderate means and stimulate business growth.

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from tax. There's seems to be movement towards consolidating higher education tax breaks for taxpayers, but many high-income clients will still be shut out.

**Community college credit:** A new \$5,000 credit would be created for employers that hire community college graduates. Also, a new program called "America's College Promise" would provide two years of community college for free. While not as lofty as Democratic presidential challenger Bernie Sanders' ambitions to provide free tuition at public colleges, you can let clients know that this proposal has a puncher's chance.

**Retirement plans:** Reiterating proposals from past budgets, the president wants to increase retirement plan portability and open up such plans to more taxpayers, including a provision that would mandate employers with more than ten employees to offer IRAs. Obama would also facilitate multi-employer 401(k) plans and provide employers with fewer than 100 employees with tax credits of up to \$4,500 for automatic IRA enrollment. As evidenced by the president's recent success in initiating the MyRA, a common ground for retirement reforms may be reached.

**Dependent care credit:** Currently, the maximum credit is 20% of the first \$3,000 of qualified expenses for a child under age 13 (\$6,000 for two or more children), but phases down to 20% for taxpayers with an adjusted gross income (AGI) above \$43,000. The proposal would provide a credit of \$3,000 for children under age 5 with an AGI threshold of \$120,000. But alert clients to this potential downside: Flexible Spending Accounts (FSAs) for dependent care expenses would be eliminated.

**High-income taxpayers:** The president would limit the tax benefit of itemized deductions to 28% for high-income taxpayers, while expanding the surtax on "net investment income" (NII) to include businesses not otherwise subject to payroll tax. Finally, Obama would impose a version of the Buffet rule requiring taxpayers to pay at least a 30% tax rate after charitable contributions. These proposals have been

kicking around for several years without gaining much traction. The one your clients

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Credit (EITC) in several ways, including expanding the EITC for younger and older taxpayers and creating a new credit for married couples when both spouses work. But the enhanced credit wouldn't be available to couples with an AGI above \$120,000.

## **Business Tax Provisions**

**Corporate taxes:** Comparable to proposals by several of this year's presidential candidates, Obama would lower the top corporate tax rate from 35% to 28%, impose higher taxes on foreign earnings and restrict benefits resulting from corporate tax inversions. Sentiment is growing stronger for corporate tax reforms, so you can tell business clients that the prospects are improving.

**Section 179 deduction:** New "tax extenders" legislation enacted last year permanently established a maximum \$500,000 Section 179 deduction (with inflation indexing), but Obama wants to double this figure to \$1 million. The odds of enacting another change so soon after the new law seem low. In any event, your small business clients probably have plenty of leeway with the \$500,000 limit.

**Domestic business tax incentives:** Obama would enable businesses to claim a 30% tax credit for businesses that reduce or eliminate a line of business currently operating overseas and for starting up or moving an existing foreign business within our borders. We don't think there's enough momentum to push this through so clients should not get too excited over the idea.

**Small business accounting:** Under the proposed budget, small businesses with average annual gross receipts under \$25 million would be exempted from certain accounting rules. Qualified businesses could use the cash basis method, avoid the uniform capitalization rules and rely on a simplified inventory accounting method. This could turn into good news for CPAs but don't count on it.

**Start-up expenses:** Currently a start-up company can claim an immediate first-year

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## Miscellaneous Tax Provisions

**Estate tax:** Obama would revise several “permanent” estate tax provisions. Notably, he would return the current top 40% rate with a \$5 million indexed exemption to the 45% rate and just a \$1 million exemption with no inflation indexing. The chances for such a low threshold appear slim in this current political environment.

Estate tax proposals by the candidates have been all over the place and there is no clear consensus.

**Cadillac tax:** The so-called Cadillac tax on high-cost health insurance plans, postponed for two years from 2018 to 2020 under the tax extenders law, would be modified to protect employers from paying the tax just because they are located in a high-cost state. Of course, any provision attached to Obamacare could be fair game.

**Tobacco and oil taxes:** The budget would increase the tax on tobacco to help fund an pre-school initiative and expand home visiting programs by nurses, social workers, and other professionals. Such “sin taxes” are often popular with lawmakers looking to fund pet projects. Similarly, it would levy a fee of \$10.25 per barrel of oil, an easy target these days due to the recent plunge in oil prices.

**Clean energy incentives:** Obama would improve tax benefits for investing in clean energy, including the creation of two new tax credits for commercial deployment of carbon capture, utilization and storage, as well as eliminating \$4 billion a year in tax subsidies to oil, gas and other fossil fuel producers.

Most of these proposals seem doomed from the start, but election years can make strange bedfellows in Congress. Of course, the outcome in November is a major factor. We will keep a close watch on future developments.

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