Certified Public Accountants

Gatto McFerson

February 3, 2015

Dear Friends and Colleagues,

The President recently submitted his 2016 Federal Budget to Congress. Within this budget were several tax modifications and proposals that, if passed, would impact most taxpayers.

Given the current politics in Washington, many of these proposals will never see the light of day. However, some may…and we believe it is prudent to understand and plan for what is possibly on the horizon.

Business Related

- Expand and permanently extend Code Sec. 179 expensing to $500,000 for 2015 and $1,000,000 for 2016, with inflation adjustments thereafter. Section 179 provides the ability for business owners to deduct new equipment in the year of purchase, as opposed to depreciating this equipment over its useful life, typically 5-10 years. Section 179 is an excellent tax planning tool, allowing business owners to purchase a large piece of equipment, finance it with only a minor cash outlay, yet deduct the entire purchase price in the year of acquisition.

- Expand the credit for small employers providing health insurance to apply to up to 50 (rather than 25) full-time equivalent employees, with phase out between 20-and-50 employees (rather than between 10 and 25).

- End tax breaks that allow professional service businesses to avoid self-employment payroll taxes. For the veterinary industry, this is a scary proposition. Most practice owners hold their businesses in an S-Corporation, and all net income that is currently distributed out to the shareholders via a K-1 is not taxed for self-employment. This proposal could change that.

- Extend and modify incentives to hire veterans and other employment tax credits.

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Individual/Families

- Elimination of "stepped up basis" at death, with similar gift consequences. Transfers of appreciated property generally would be treated as a sale of the property, with the donor or deceased owner of the appreciated asset realizing capital gain at the time the asset is given or bequeathed. Generally, a $100,000-per-person exclusion would exist for inherited appreciated assets, along with exceptions for surviving spouses, small businesses, charities and residences, among others.

- Raising the top effective capital gains and dividends rate to 28 percent. This rate increase would include a rise in the top capital gain and qualified dividend rate from 20 percent to 24.2 percent, which rises to 28 percent when the current net investment income tax of 3.8 percent is included.

- $3,000 maximum credit per child for care for children under age 5. The child and dependent care credit under Code Sec. 21 would be increased to a maximum of $3,000 per child for expenses incurred for the care of children under age 5 to enable gainful employment of the parent(s) or other qualified taxpayer. The regular credit for those ages 5 through 12 would also phase out at higher income levels.

- $500 "second earner" tax credit for dual-earner couples. This new credit would be fully phased out at adjusted gross income (AGI) over $210,000.

- The $2,500 American Opportunity Tax Credit (AOTC) would be expanded to include more students. The AOTC would be permanently available for the first five years of post-secondary education (replacing the Hope tax credit entirely); a larger portion of the AOTC would be refundable, and the credit amount would be indexed for inflation each year. In exchange, the administration proposed the repeal of the Lifetime Learning Credit and student loan interest deduction to simplify the overall scheme for education benefits.

- For the wealthiest, limiting to 28 percent the value of itemized deductions and other tax preferences.

- Implementing the “Buffett Rule.” This rule, which is a carryover from prior year budget proposals, would require the wealthy to pay at least a 30-percent effective tax rate.

- Reinstating 2009 estate and gift tax rates with lower exclusions, generally at 45 percent at $3.5 million for estates and $1 million for gifts.

We’ll be watching to see if any of these proposals gain steam in Congress. Should you have any questions or comments, please feel free to contact our office.

Sincerely,

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