
President Obama Reveals the Deal Framework for Extension of Tax Cuts

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On December 6, President Obama announced that he had agreed to a framework of a deal to extend the Bush tax cuts for two years, temporarily cut the estate tax to 35%, increase the estate tax exemption amount to \$5 million and reduce two percentage points from the current social security payroll tax. Some of the provisions are projected to be included in this deal, including the following:

Temporary Reduction in Income Tax. The proposed tax package would retain the current maximum tax rate on ordinary income and a 15% maximum tax rate on capital gains and dividends for 2 years (2011 and 2012).

Estate Tax Relief. The President agreed to a 35% tax rate for 2011 and 2012 and increasing the estate tax exemption amount to \$5 million per person. Without Congressional action, the estate tax rate would have returned to 55% with an exemption amount of \$1 million per person.

Alternative Minimum Tax Patch. The proposal would include a two-year extension on the alternative minimum tax patch.

Social Security Payroll Tax Cut. The proposal would cut the employee's share of social security payroll taxes from 6.2% to 4.2% for 2011. The matching employer portion of 6.2% would remain unchanged.

Unlimited Expensing of Depreciable Assets. Rather than adopting the current 50% bonus depreciation for assets used in a trade or business, the White House seems to be interested in unlimited Section 179 write-off for new assets purchased and placed in service in 2011. Under current law, this deduction is limited to \$500,000. This provision would not apply to any used property and it is not clear whether it would also apply to qualified leasehold improvements.

Form 1099 Reporting Requirements. Although the proposal does not repeal the new Form 1099 information reporting rules created under the Patient Protection and Affordable Care Act, it is possible that the final tax bill may include a repeal.

Other Extenders. It is likely that the final tax provisions may extend current tax breaks such as the research and development tax credit, the expanded child tax credit, the earned income tax credit, the American Opportunity Tax Credit for college costs, the subpart F active financing exception, and federal deductions for state and local taxes.

We will provide you more information if it becomes available. If you have any questions, please contact Phil Jelsma at 619.699.2565 or pjelsma@luce.com.