January 21, 2015 - President's State of the Union includes major tax change proposals

As outlined in a Fact Sheet released by the White House and a Jan. 17 conference call with reporters by senior administration officials *(we can provide you with a copy of the fact sheet)*, President Obama will include a series of significant tax measures in his State of the Union message set to be delivered the night of Jan. 20. The President will propose a number of tax increases that would generate revenue of approximately $320 billion over the next decade. He also will suggest new and revised tax credits as well as a program to promote retirement savings. Among the President's tax-related proposals are the following:

. . . an increase in capital gains and dividend tax rates to 28%; for couples, the 28% rate would apply where income is more than $500,000 annually;

. . . a fee of seven basis points on the amount of liabilities of financial institutions with assets greater than $50 billion. The fee on large, highly-leveraged financial institutions would discourage excessive borrowing;

. . . a new tax credit worth up to $500 for households with two wage earners with combined income of up to $210,000. Families could claim a maximum credit equal to 5% of the first $10,000 of earnings for the lower-earning spouse in a married couple. The maximum credit would be available to families with incomes up to $120,000, with a partial credit available to couples with income up to $210,000;

. . . increasing the child tax credit to as much as $3,000 for each child under the age of five. Families could claim a 50% credit for up to $6,000 of expenses per child under five. The maximum credit for young children, older children, and elderly or disabled dependents would be available to families with incomes up to $120,000. In addition, enhanced benefits under the credit which are scheduled to expire after 2017 would be made permanent;

. . . doubling the earned income tax credit (EITC) for workers without qualifying children, increasing the income level at which the credit phases out, and making it available to workers age 21 and older. In addition, enhanced benefits under the credit which are scheduled to expire after 2017 would be made permanent;

. . . the consolidation of six education-related tax incentives into just two, while improving the American Opportunity Tax Credit (AOTC) to provide students up to $2,500 each year over five years as they work toward a college degree. The refundable portion of the

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AOTC would be increased to $1,500. Part- time students would be eligible for a $1,250 AOTC (up to $750 refundable). In addition, enhanced benefits under the AOTC credit which are scheduled to expire after 2017 would be made permanent;

. . . requiring employers with more than 10 employees that don't have a 401(k) retirement plan to automatically enroll full- and part-time employees in an individual retirement account (for which small employers would receive tax credits to cover the costs involved); and

. . . the closing of the so-called "trust fund loophole" by requiring payment of capital gains tax on the increase in value of securities at the time they are inherited; however, for couples, no tax would be due until the death of the second spouse. In addition, no tax would be due on inherited small, family-owned and operated businesses unless and until the business was sold, and any closely-held business would have the option to pay tax on gains over 15 years. Capital gains of up to $200,000 per couple ($100,000 per individual) could be bequeathed free of tax, with this exemption automatically portable between spouses. Couples would have an additional $500,000 exemption for personal residences ($250,000 per individual), with this exemption also automatically portable between spouses. Tangible personal property-other than expensive art and similar collectibles-(e.g. bequests or gifts of clothing, furniture, and small family heirlooms) would be tax-exempt.

In a statement released in a prompt reaction to the unveiling of the president's proposals, Sen. Orrin Hatch (R-UT), chairman of the tax-writing Senate Finance Committee, said. "Slapping American small businesses, savers, and investors with more tax hikes only negates the benefits of the tax policies that have been successful in helping to expand the economy, promote savings, and create jobs." He added that, "The president needs to stop listening to his liberal allies who want to raise taxes at all costs and start working with Congress to fix our broken tax code."