## President's Budget Proposal

**Article Highlights:**

- Small Business Provisions
- Individual Provisions
- Gift & Inheritance Provisions

The President's Fiscal Year 2016 Budget Proposal was just released and includes a number of tax proposals that would increase the taxes on higher-income taxpayers and provide more tax breaks for low- to middle-income taxpayers. The following are some highlights of the budget proposal that would impact individuals and small businesses, **but remember these are proposals only**.

***Business Provisions***

- *Section 179 Expensing* – Would make the Sec. 179 expense cap $500,000 for 2015 (it is currently at $25,000, down from $500,000 in 2014). Would raise the expense cap to $1 million in 2016 and make the $1 million permanent with inflation adjustment for future years.
- *Cash Basis Accounting* – Would expand use of the cash method of accounting to small businesses with less than $25 million in average annual gross receipts, estimated to apply to 99% of all businesses.
- *Qualified Small Business Stock* – Would permanently extend the 100% exclusion on capital gains from sales of tax-qualified small business stock held by individuals for more than five years, and would eliminate the inclusion of excluded gain from the Alternative Minimum Tax.
- *Start-Up & Organizational Expenses* – Would increase and consolidate the deduction for start-up and organizational expenditures.
- *Small Employer Health Insurance Credit –* Would expand the credit for small employers to provide health insurance to apply to up to 50 (rather than 25) full-time equivalent employees, with phaseout between 20 and 50 employees (rather than between 10 and 25).
- *Mandatory Employer IRA Payroll Deductions* – Would require employers with 10 or more employees who don't have a 401(k) plan to automatically enroll full-time and part-time employees in an optional IRA payroll deduction plan.

***Individual Provisions***

- *Child Care* – Would allow a credit of up to $3,000 (50% credit for up to $6,000 of expenses per child) for each child under the age of 5 to enable gainful employment of the parent(s) or other qualified taxpayer. The regular credit for those ages 5 through 12 would also begin to phase out at $120,000 (instead of $15,000 under current law). Flexible spending accounts for child care would be eliminated.
- *Second Earner Tax Credit* – Would provide a new tax credit up to $500 (5% of the first $10,000 of earnings for the lower-earning spouse) for joint filers with two wage earners. The credit would begin to phase out at income of $120,000 and would be fully phased out when family income reaches $210,000. It is estimated that this new credit would benefit 24 million joint filers.
- *Earned Income Tax Credit (EITC)* – Would double the EITC for workers without a child and increase the credit applicability for childless workers with earnings up to 150% of the federal poverty level (currently about 125%).

Would expand the applicability of the EITC to workers age 21 to 66 (currently 24 to 64).

- *Education Tax Benefits* – The American Opportunity Tax Credit (AOTC) would be expanded to cover five years of post-secondary education, and the current $2,500 tax credit would be adjusted for inflation. The refundable portion of the AOTC would be increased to $1,500. Part-time students would be eligible for a $1,250 AOTC (up to $750 refundable). Duplicative and less effective provisions, including the Lifetime Learning Credit, the tuition and fees deduction, the student loan interest deduction (for new borrowers), and Coverdell accounts (for new contributions) would be repealed or allowed to expire. The credit would also be better coordinated with Pell Grants.
- *Top Capital Gains Rate* – Would raise the top effective capital gains and qualified dividends tax rate to 28% (24.2% plus the 3.8% net investment income tax). For couples, the 28% rate would apply where income is more than $500,000 annually.
- *Itemized Deductions* – Would limit to 28% the value of itemized deductions and other tax preferences for married taxpayers with incomes over $250,000 and individual taxpayers with income over $200,000. The limit would apply to all itemized deductions as well as other tax benefits, such as tax-exempt interest and tax exclusions for retirement contributions and employer-sponsored health insurance.
- *Limit Retirement Account Contributions* – Would prohibit contributions to and accruals of additional benefits in tax-preferred retirement plans and IRAs once balances are about $3.4 million, which is about enough to provide an annual income of $210,000 in retirement.
- *Buffett Rule* – Would implement the "Buffett Rule." This rule, which is a carryover from prior year budget proposals, would require the wealthy to pay at least a 30% effective tax rate.

***Gift & Inheritance Tax Provisions***

- *Inheritances and Gifts* – Would eliminate the current step-up in tax basis at death and require payment of capital gains tax on the increase in value of securities at the time they are inherited. Generally, a $100,000-per-person, portable-between-spouses exclusion would apply for inherited appreciated assets, along with exceptions for surviving spouses, small businesses, charities, and residences, among others. For couples, no tax would be due until the death of the second spouse. 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. 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.
- *Inheritance and Gift Tax* – Would reinstate the prior, 2009, estate and gift tax rates with lower exclusions (generally at 45% at $3.5 million for estates and $1 million for gifts).

These are all proposals by the Obama administration and must be approved by Congress. The information is being passed along so you will have an idea of what might happen in the future.