

2011 TAX HIKES ANTICIPATED

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Tax cuts instituted during the Bush administration will expire at the end of 2010. The Obama administration intends to allow the previous higher tax rates to be reinstated automatically and may raise them even more for taxpayers earning over \$200,000. If you will be affected by these increases, you may want to consider recognizing income this year rather than pursuing the usual strategy of deferring to a later year.

Capital gains taxed at 15% this year will rise to 20% in 2011 and beyond. Dividends currently taxed at 15% would be taxed at ordinary tax rates as high as 39.6%. The current income tax rates of 10%, 15%, 25%, 28%, 33% and 35% would revert to 15%, 28%, 31%, 36% and 39.6%.

ADMINISTRATION TAX HIKES

The Obama administration is proposing the capital gains rates be left at their current levels (15% for most, 0% for some) except in the two highest brackets where the rate would be 20%. In addition, the administration is proposing to raise the top two rates to 36% and 39.6%.

With regard to the Alternative Minimum Tax (AMT), we are still awaiting a customary “patch” for 2010 to help reduce negative impact on millions of taxpayers. Without this patch, a significant number of people will

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be caught by this parallel tax system and will face a tax increase. A solution for the AMT system is very expensive and unlikely with health care and large deficits looming.

Comments made by the Obama administration seem to clearly state taxes will escalate beginning in 2011 for single taxpayers earning over \$200,000 and families earning over \$250,000. One potential hope is found in



the president’s tax reform panel, led by former federal chief Paul Volcker. The panel’s recommendations are due in early 2010. Unfortunately, a similar panel during the Bush administration was largely ignored.

HEALTH CARE TAX HIKES

Currently there have been many tax proposals studied by the House and Senate leaders. But with the prospect of a scaled-back package after the Massachusetts election, we are unsure if any of the earlier proposals are still under consideration. The House bill provides for an income tax surcharge of 5.4% on singles earning more than \$500,000 and families earning more than \$1,000,000. The Senate bill calls for a tax on “Cadillac”

health plans but recent negotiations have effectively delayed this tax on union health plans for 5 years. A compromise tax plan being studied would levy the Medicare tax (1.45%) on all income, including dividends and interest, of high-income taxpayers.

TAX EXTENDER BILL

Adding further uncertainty to the tax picture is the fact that Congress has not passed the Tax Extender Bill. This bill was approved by the House in December of 2009, but the Senate has not yet voted. It extends over \$31 billion in tax relief measures for individuals and businesses for one year. Primary individual tax relief deductions include the following: sales tax, the standard deduction for real estate taxes, tuition and related expenses, and certain teacher expenses. Conventional wisdom indicates that the Tax Extender Bill should be passed this year.

TAX STRATEGY

With our income tax rules and rates in such a state of flux, it is currently difficult to plan beyond a 1-2 year horizon. For single taxpayers earning less than \$200,000 and families earning less than \$250,000 it seems taxes will not change significantly through 2011. For those earning above these limits, it may be wise to think about accelerating income expected in 2011 to 2010, where possible. If you are contemplating selling appreciated assets you may want to anticipate selling them in 2010. In addition, high bracket taxpayers may want to postpone deductions until 2011 by holding off on charitable donations or delaying property tax payments typically paid late in 2010.

As always the subjects discussed here are general in nature and are not to be considered specific tax advice. Be sure to contact your relationship manager and tax advisor for specific recommendations.

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VANTAGE NEWS

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FAMILY I am blessed with a beautiful wife, a happy marriage, five beautiful children and a mostly good dog.

PAST I was saved by Jesus Christ in 1989.

SURPRISE US I've been skydiving.

OUTSIDE OF WORK Hiking and bicycling with my family and friends.

AT VANTAGE I love helping our clients be better stewards of their money.

ANYTHING ELSE I am very thankful for the long and deep relationships that I have with my wonderful clients and great colleagues.



Tom Vislisl
Financial Coach
Kingdom Advisor