
Individual Income & Estate Tax Outlook

Texas Bank & Trust Money Money Seminar



Presented by:

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Objective

- Consider the current economic environment
- Identify upcoming changes to current tax law
- Explore the impact of uncertainty on tax planning
- Evaluate tax proposals under consideration

The Current Environment

- Deficit was \$1.3 trillion for 2011
 - National debt is \$14.8 trillion currently
 - National debt ceiling was raised to \$16.4 trillion in July 2011
- More Americans are living below the poverty line than ever
 - 46.2 million Americans, or 15.1%, living below the poverty line in 2010
- Possible double dip recession in the next year

The Current Environment

2011 Budget Deficit Figures

- Tax revenue: \$2,300,000,000,000 (up 6.5% from 2010)
 - Spending: \$3,600,000,000,000 (up 4.2% from 2010)
 - New debt: \$ 1,300,000,000,000 (deficit – 8.6% GDP)
 - Total debt: \$14,847,000,000,000 (as of 10/18/11)
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- Recent cut: \$ 38,500,000,000 (2011 budget agreement compromise in April, 2011 to avoid a government shutdown.)

The Current Environment

Now, remove 8 zeros and pretend it's your budget:

- Annual income: \$23,000
- Money spent: \$36,000
- New debt on credit card: \$13,000
- Outstanding balance on credit card: \$148,470

- Total cuts: \$385

The Current Environment

Other factors that may lead to increased income taxes:

- International corporate competition
 - In 2010 the U.S. had the 2nd highest combined corporate income tax rate of 39.21% behind Japan at 39.54%
 - In December 2010 Japan approved a 5% cut in the country's corporate tax rate starting in 2011

The Current Environment

Other factors that may lead to increased income taxes:

■ The Tax Gap

Type of Noncompliance (in Billions)	Individual Income Tax	Corporate Income Tax	Other	Total
Underreporting	\$197	\$30	\$58	\$285
Underpayment	23	2	8	34
Nonfiling	25	N/A	2	27
Total	\$244	\$32	\$68	\$345

- Most recent study from 2001 tax year as updated in February 2006
- Totals do not add due to rounding
- Other includes: self-employment tax, other employment tax, estate and excise taxes

The Outlook

- Proposed Tax Legislation
- Joint Select Committee on Deficit Reduction
 - Bipartisan “super committee”
- 2012 Budget Proposals
- Spending Cuts

Proposed Tax Legislation

American Jobs Act

■ Seeks to:

- Lower payroll taxes
- Provide accelerated deductions for certain business investment costs
- Increase infrastructure builds and funds
- Finance re-employment services
- Provide for extended Emergency Unemployment Compensation (EUC)
- Provide grants to pay salaries and related expenses of educators
- Provide grants for renovations and repair to education facilities

Proposed Tax Legislation

American Jobs Act

- Two versions of funding this bill:
 - Funded primarily by ending income tax cuts to upper income earners
 - Funded primarily by assessing a surtax on income over \$1 million
- This act was blocked by Senate Republicans in October
- Expect to see this addressed piece by piece in future

Bipartisan “Super Committee”

- Appointed to reduce deficit by \$1.2 trillion over 10 years
- Should announce recommendations by Thanksgiving
- Much being done in secret
- Obama’s recommendations to the committee include:
 - Cuts to Medicare and Medicaid
 - Increase in required contributions by federal workers for retirement income
 - Winding down the war in Iraq and Afghanistan
 - Tax changes included in 2012 budget proposals

2012 Budget Proposals

- Index AMT parameters for inflation
- Expiration of “Bush tax cuts”
- “Buffet Rule”

2012 Budget Proposals

Expiration of “Bush tax cuts”

- Obama proposes extension for income under \$200/250k
- With no action, what will happen?

2012 Budget Proposals

Expiration of “Bush tax cuts” – Beginning 1/1/2012

- Certain itemized deductions expire
 - State and local general sales tax
 - Mortgage insurance premiums

- Other deductions expiring
 - Energy efficient home/property tax credits
 - “Above the line” teacher expenses and qualified education expenses

2012 Budget Proposals

Expiration of “Bush tax cuts” – Beginning 1/1/2012

■ Alternative Minimum Tax (AMT) patch

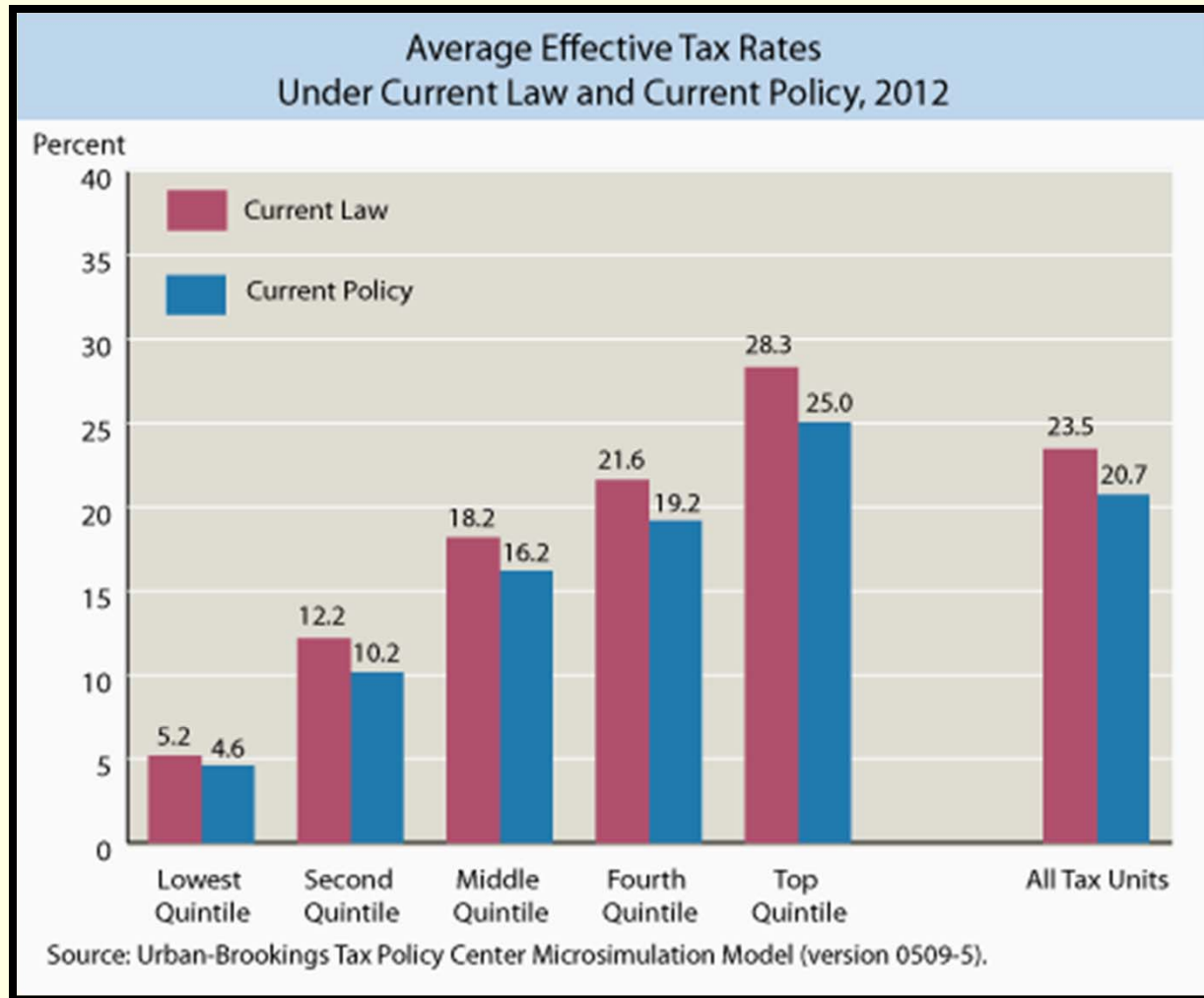
- About 26 million individuals are exempt from AMT under the patch
- Exemption amounts will return to:
 - \$45,000 from \$74,450 for married individuals filing joint return
 - \$33,750 from \$48,450 for unmarried individuals
 - \$22,500 from \$37,225 for married individuals filing separate return

2012 Budget Proposals

Other expiring items— Beginning 1/1/2012

- Payroll tax reduction of 2% will expire
- End of tax-free IRA distributions for charitable purposes

2012 Budget Proposals



2012 Budget Proposals

Expiration of “Bush tax cuts” – Beginning 1/1/2013

- Marginal income tax rate increase
 - Current Brackets: 10%, 15%, 25%, 28%, 33%, 35%
 - New Brackets: 15%, 28%, 31%, 36% and 39.6%

- Capital gain and qualified dividend tax rates increase
 - Qualified dividends will be taxed as ordinary income
 - Capital gains will be taxed at 10% and 20%

2012 Budget Proposals

Expiration of “Bush tax cuts” – Beginning 1/1/2013

■ Marriage penalty returns

- Standard deduction will be reduced
- Higher tax brackets will apply at lower income levels

■ Education incentives reduction

- No more deduction for interest on educational loans
- Decreased contribution to Coverdell education savings accounts

■ Return to overall limitation on itemized deductions

2012 Budget Proposals

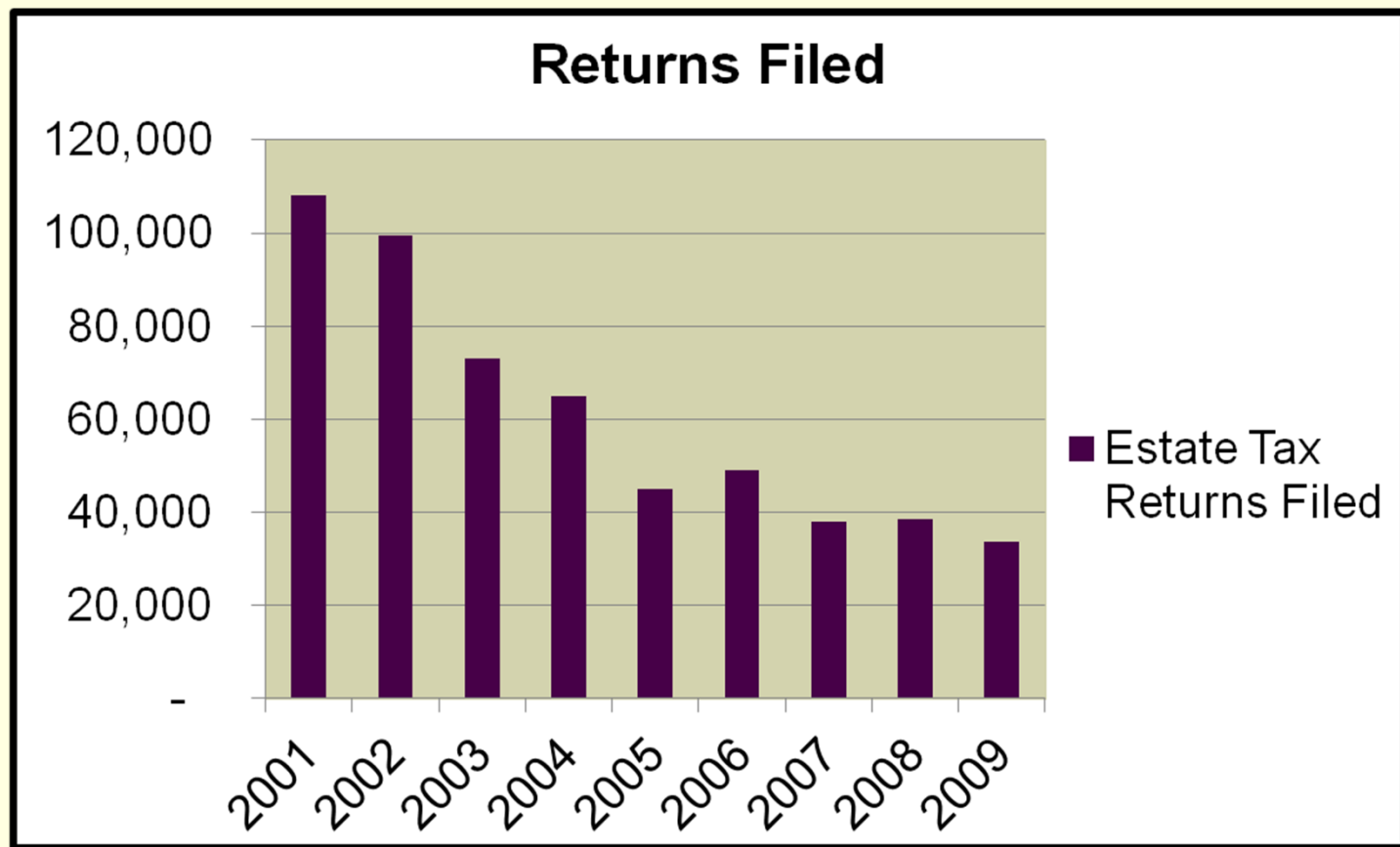
Expiration of “Bush tax cuts” – Estate implications

- Law for 2011-2012
 - \$5 million exemption
 - \$5 million GST exemption
 - 35% rate
 - Portability election

- Beginning 1/1/2013
 - \$1 million exemption
 - \$1.36 million GST exemption
 - 55% rate
 - No portability

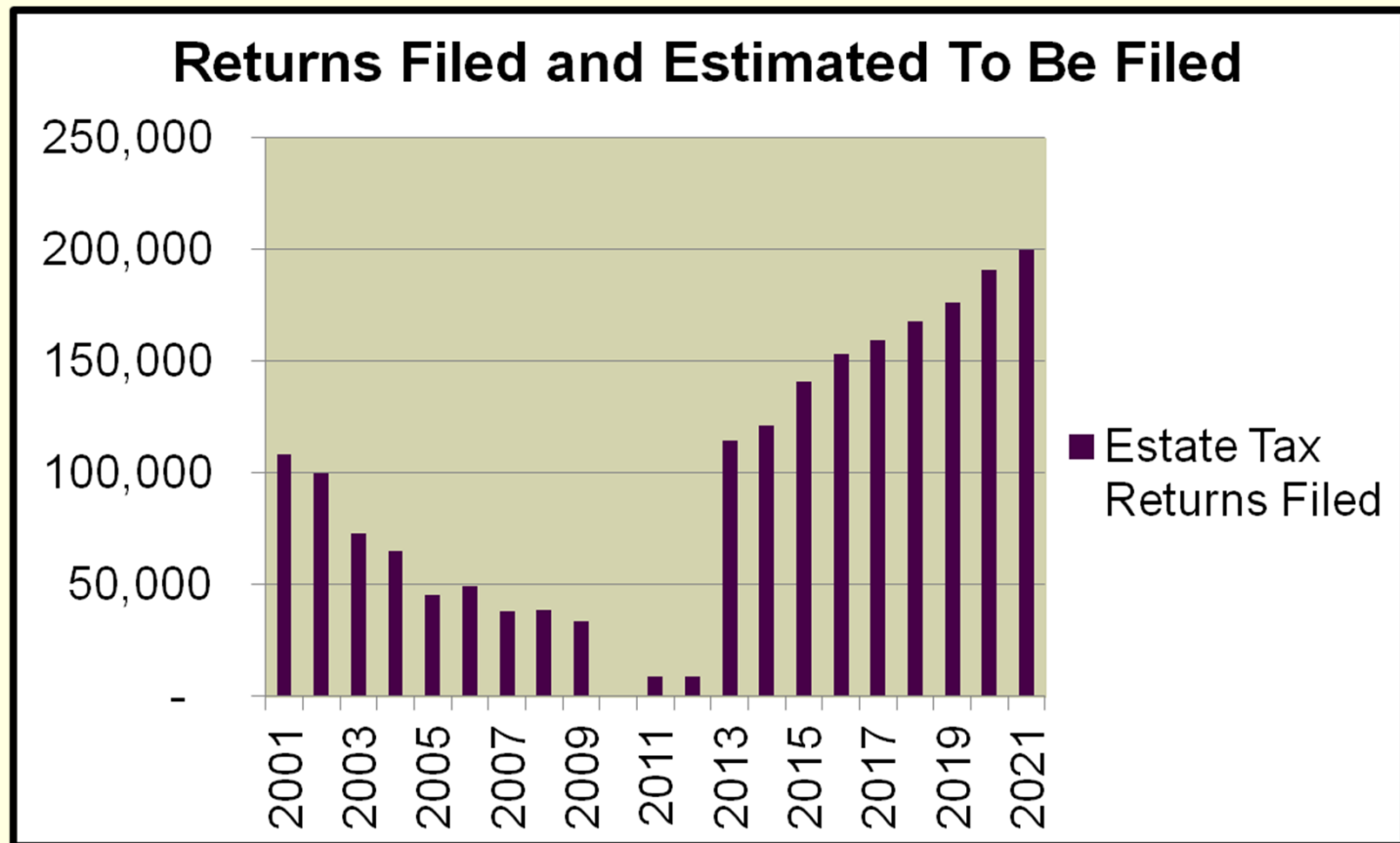
2012 Budget Proposals

Expiration of “Bush tax cuts” – Estate tax data



2012 Budget Proposals

Expiration of “Bush tax cuts” – Estate tax data



2012 Budget Proposals

Expiration of “Bush tax cuts” – Estate uncertainties

- Will Congress allow the exemption to fall to \$1 million to raise tax revenue from deceased baby boomers?
- Will the \$5 million gift exemption for 2011-2012 be honored if the exemption for 2013 decreases?
- When will Congress take action? Likely not until after the 2012 election in November.

2012 Budget Proposals

Expiration of “Bush tax cuts” – Estate planning

- Revise documents to consider possibilities of future estate law
- Even if not subject to estate tax, old documents could result in unintended outcome
- Flexibility is important
- Check beneficiary designations and bank ownership records
- “Good things come to those who wait” is bad advice for estate tax planning

2012 Budget Proposals

“Buffet Rule”

- Argument that millionaires pay a lower percentage of income taxes than middle income earners
 - 29.1% average tax rate of individual earning over \$1million
 - 15% average tax rate of individual earning \$50-70k
- Part of discrepancies between higher income and lower income tax rates are greater percentage of business income with higher income taxpayers, producing dividends and capital gains eligible for favorable tax treatment

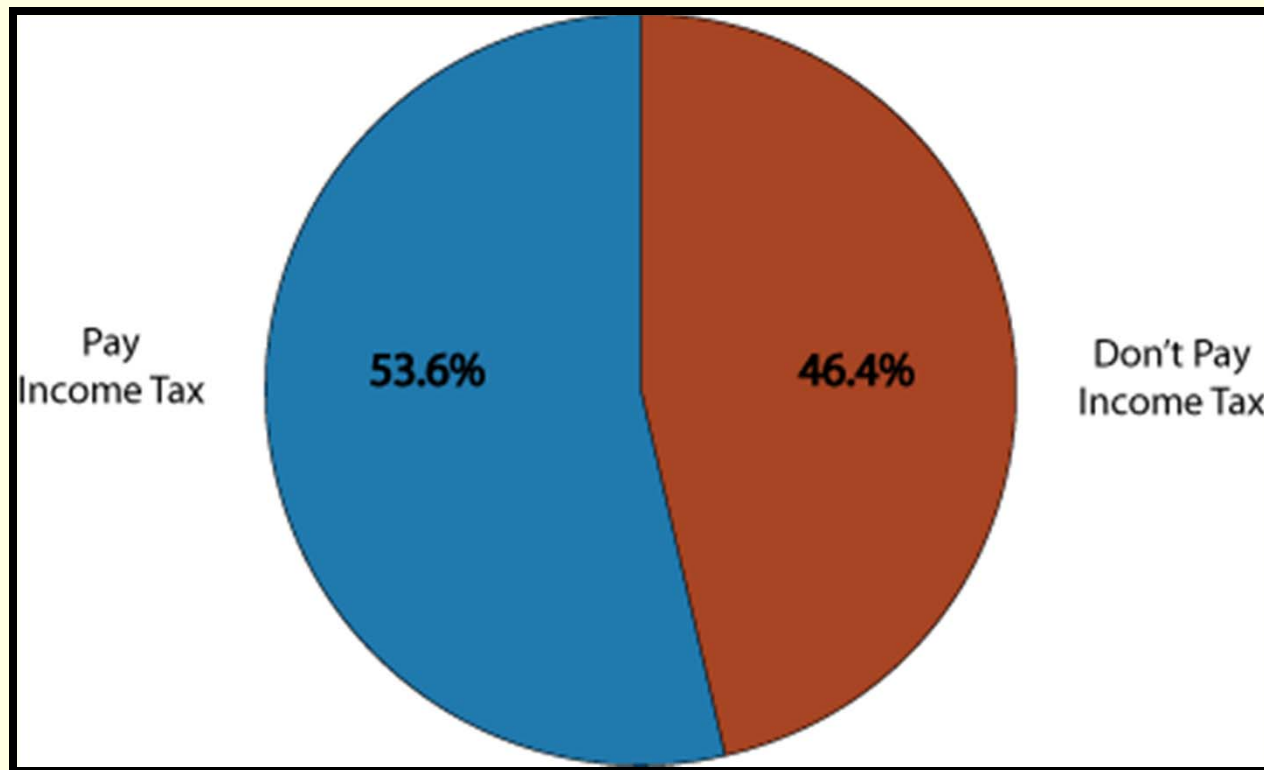
2012 Budget Proposals

“Buffet Rule”

- If taxes increased to 100% on earnings of \$500k or more...
 - 2009 deficit would have decreased from \$1.61 trillion to \$839 billion
 - Approximate reduction of \$771 billion
- Of 142,450,569 total returns filed for 2008
 - 51,790,465, or 36.36% were not taxable
 - 4,416,986 returns with income over \$200k
 - 27,399 were not taxable
 - 0.62% of returns with income over \$200k
 - 0.019% of all returns

2012 Budget Proposals

Estimated for 2011 tax year

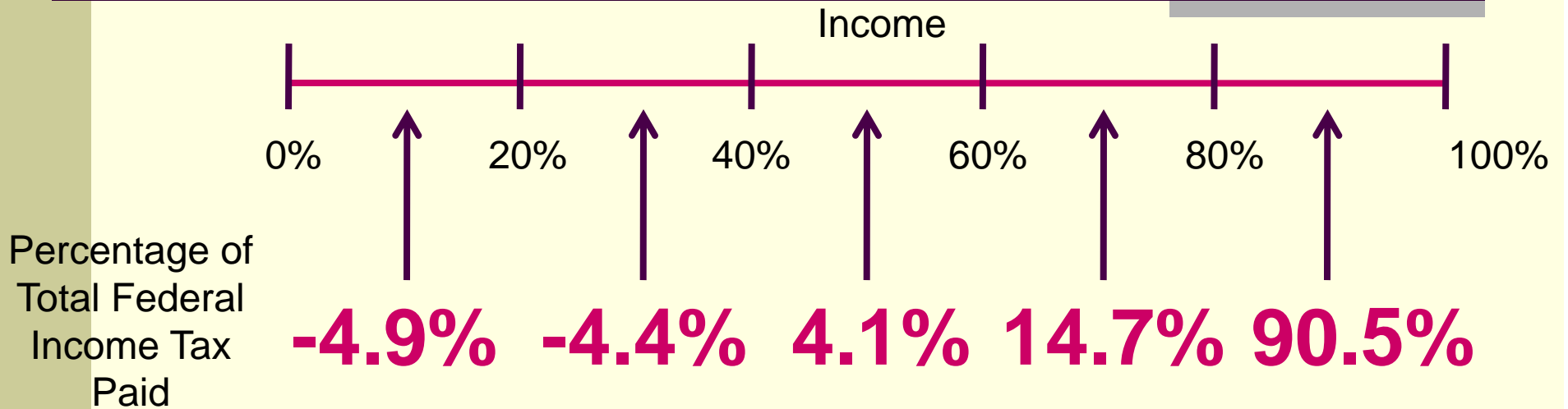


2012 Budget Proposals

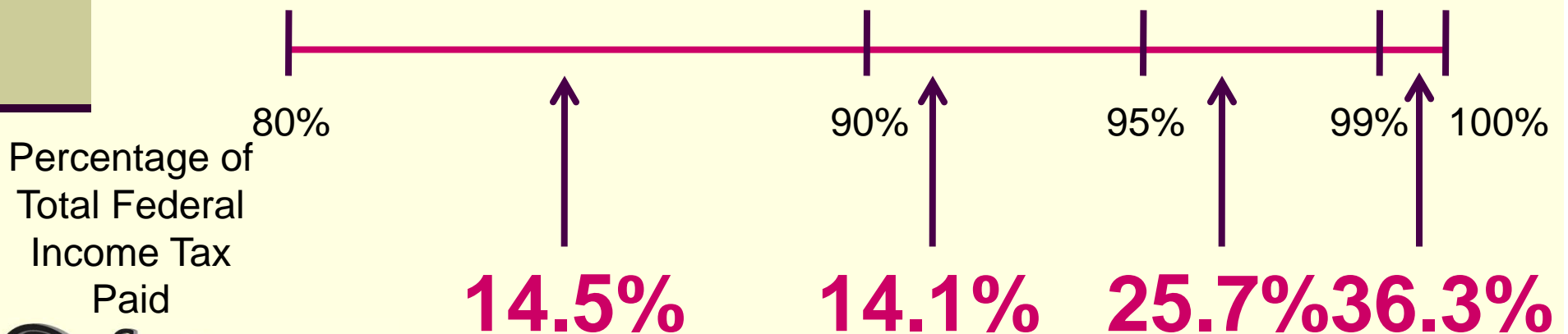
“Buffet Rule”

- Millionaires contribution to federal income tax
 - \$180 billion, or 20% for 2008
 - The top 1% paid 38% of federal income taxes for 2008
 - The top 1% represented 20% of federal income for 2008

Tax Policy Center 2009 Statistics



Top 20% Income, 90.5% Income Tax Paid Breakdown

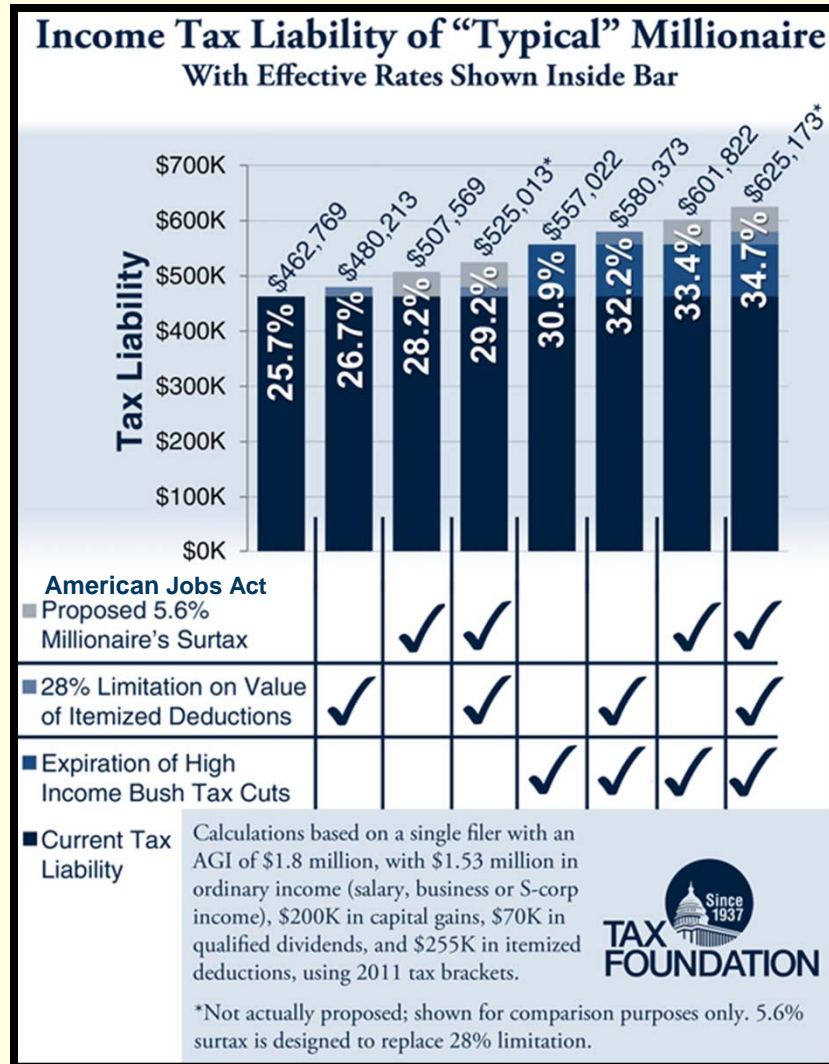


2012 Budget Proposals

“Buffet Rule”

- Figures have not been released to estimate how much the “Buffet Rule” might raise

2012 Budget Proposals



Spending Cuts

Spending cuts that may be considered include...

- Defense
- Social Security
- Medicare
- Medicaid

- These items are among the largest budget items.

Outlook Conclusions

- Certain inequities in tax system
 - “Buffet Rule” will not entirely solve the problem
- Problem cannot be solved exclusively by raising taxes on the rich/wealthy
- AND, problem will not be solved exclusively by budget cuts
- “Super Committee” may recommend some compromise
- If “Super Committee” recommendations rejected:
 - Automatic cuts across the board beginning in Jan 2013
 - Medicaid and Social Security are protected

Questions?

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