

## What Obama's Budget Means For Your Taxes

Brian Wingfield, 02.01.10, 07:45 PM EST

**Lower-income Americans and small business would get a break under the proposal, while the better-off would take a hit.**

WASHINGTON -- In recent weeks, the White House has trumpeted tax relief for the middle class, a freeze on much discretionary spending and a tax on the biggest players in the financial sector. However, the biggest surprise about President Barack Obama's fiscal year 2011 budget request, unveiled Monday, is how unsurprising it actually is.

"It's largely a reiteration of the president's budget request from [last year](#)," along with some extensions of tax benefits built into the 2009 economic stimulus bill, says Clint Stretch, managing principal for [tax policy](#) at Deloitte Tax in Washington.

Whether that's good news or bad depends on your perspective. For the better-off, the tax code will be more complex and more expensive under the president's proposals. For lower-income Americans, it's also more complex, but more generous as well. That same principle applies to businesses--small businesses would get a break, but many big concerns, particularly banks and oil, gas and coal companies--wouldn't see much benefit.

For individuals making more than \$200,000 annually (\$250,000 for couples), the Obama administration is still calling for the reinstatement of the 36% and 39.6% marginal rates, rising from current levels of 33% and 35%, respectively. High earners would also get hit with other provisions, including limits on itemized deductions and a 20% tax rate on capital gains and dividends (up from 15% currently). In addition, carried interest would be taxed as ordinary income instead of capital gains, which is sure to draw the ire of the hedge fund and private-equity lobbies.

However, those earning less than \$200,000 would see an extension of the Bush-era tax cuts. For 95% of working Americans, the administration also wants to extend for one year the Making Work Pay tax credit. The signature individual tax benefit of last year's stimulus act, it's a maximum \$400 credit on the first \$6,452 of an individual's earned income, with a phase-out for those making more than \$75,000 a year. Last week, the administration also detailed several tax breaks for the middle class, including an increase in the Child Tax Credit for families making up to \$113,000 a year and a \$2,500 annual college tax credit. In addition, the president wants to expand the Saver's Tax Credit and require employers who don't offer workers retirement plans to automatically enroll workers in Roth IRAs.

The newest additions to the administration's budget ideas--and they're not all that new--come in the small-business realm. Many companies that aren't classified as corporations would receive a permanent elimination of the capital gains rate for investments. Sounds generous, but it doesn't apply to a broad range of industries, including health, architecture, accounting,

financial services and farming; moreover, last year's stimulus bill already provides a 75% small-business tax exclusion on capital gains.