

TAX CHANGES ARE COMING! PROBABLY.

By Mark Brenner, CPA

The income tax cuts that were enacted in 2001 and 2003 under President Bush expire on December 31, 2010. Unless Congress acts now, which means the Democrats and Republicans have to agree on what should be extended and what can expire, everything resets to the tax law in effect as of January 1, 2001. The following is a summary of some of those changes and actions you may want to take to avoid the changes; any actions should be discussed with your tax advisor. Note that both sides want some or all of these expiring provisions extended but no one knows what the future (of tax) holds.

- Higher tax rates: Highest tax brackets increase with a maximum rate of 39.6% instead of current 35%. *Planning – If you think you will be affected by the return of higher rates, consider accelerating income into 2010 or deferring deductions.*
- The Marriage Penalty returns: Tax brackets change, affecting married returns with taxable income around \$125,000. The reason for this change is that the current brackets eliminate the Marriage Penalty by making them 200% of a single person's tax bracket. The old law was approximately a 67% increase.
- Capital gains tax increases: The current 15% rate for long-term gains increases to 20% - a 1/3rd increase in the tax rate. *Planning – Now may be a good time to recognize some of those gains in stocks you have been holding. If you want to maintain your investments, you can sell for a gain and repurchase the same stock; the "wash sale" rule only applies to losses.*
- Dividends: Most dividends on stock have been taxed at capital gains rates (15%) since 2003 but will be taxed as ordinary income in 2011 – with a maximum rate of 39.6%. *Planning – If you own a privately-held taxable corporation (not an S corporation), consider paying a dividend by year end. If the company still needs those funds, you can lend back the net-of-tax dividend.*
- Alternative Minimum Tax (AMT): Every year for the past number of years, Congress has passed a one-year patch so that AMT does not affect a large number of "middle-class" taxpayers. This will have to be addressed in 2010 and again in 2011 or millions of taxpayers will find they are subject to additional taxes.

"When will we know the answers so that we can plan efficiently for income taxes?" That is an excellent question. Some pundits believe that the lame-duck Congress will address this after the November elections. Others believe that it won't be addressed until a new Congress convenes in January 2011 and any changes will be effective as of January 1, 2011. **Stay tuned to AronsonBlogs (<http://www.aronsonblogs.com>) for information** when (if?) new tax legislation is passed.