Obama Re-election Likely to Result in Major Tax Changes

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The re-election of President Obama is likely to result in substantial changes for taxpayers, especially with the expiration of the Bush-era tax rates approaching.

"The U.S. Tax Code is incredibly complex and voters had the opportunity to choose between two distinct views," said Gary Fox, managing partner of Crowe Horwath’s tax practice. "The re-election of President Obama likely will mean increased individual income taxes for high-income taxpayers."

President Obama offered a number of tax proposals during the campaign. Fox noted that while there is no guarantee that the proposals will actually be enacted into law, taxpayers should consider these proposals in their year-end planning.

Corporate Tax

• The current corporate tax rate is 35 percent, which could be lowered to 28 percent, with an even lower 25 percent rate for manufacturers.

• Manufacturers currently receive a 9 percent deduction on qualified domestic production income. The deduction for most taxpayers could be increased to 10.7 percent and the deduction for high-technology manufacturing companies could be increased to 18 percent. Fossil fuel production would no longer be eligible for the deduction.

• During the campaign, President Obama proposed making a research and development tax credit permanent, but did not indicate if the current credit would remain or be substantially modified.

• Companies may currently use the last in, first out (LIFO) inventory method. The President's tax plan would repeal LIFO. Though this proposal is not new, industry lobbying has prevented prior attempts to repeal it.

• The current Tax Code contains targeted deductions for taxpayers in specific industries. President Obama's proposed changes would eliminate many targeted provisions available to fossil fuel industries (oil, gas and coal) while renewable energy incentives might be extended or increased.

Individual Tax

• The current top tax rate of 35 percent, reduced by the Bush-era tax cuts, is set to expire at the end of the year and revert to 39.6 percent. President Obama has proposed extending the tax cuts for married taxpayers with less than $250,000 in annual income or single filers with less than $200,000 in annual income, but not for taxpayers above that income level.

- If no action is taken before the Bush-era tax cuts expire, the tax rate on dividend income will rise from 15 percent to the top individual tax rate (39.6 percent), and the tax rate on long-term capital gains will rise from 15 percent to 20 percent. President Obama has proposed maintaining the 15 percent long-term capital gain rate for taxpayers with income less than $250,000. He has also proposed retaining the 15 percent dividend rate for taxpayers with income less than $250,000.

- Taxpayers currently must pay the greater of regular income tax or the alternative minimum tax, which has a top tax rate of 28 percent. President Obama's proposed tax plan would permanently extend the AMT and indexes AMT exemption for inflation. It also creates the "Buffet rule," which states that households earning more than $1 million per year would pay a minimum 30 percent income tax rate.

- Individuals may claim certain itemized deductions and personal exemptions without limit. President Obama made two proposals during the campaign: eliminate itemized deductions for housing, health care, retirement and childcare for individuals with more than $1 million in annual income, and limit the benefit of itemized deductions to 28 percent for taxpayers in higher rate brackets.

International Tax

- U.S. tax on income from foreign subsidies generally is deferred until the earnings are repatriated into the United States. Foreign taxes paid generally are available as a credit against the U.S. tax liability on foreign income. President Obama proposed continuing the current system with some modifications: impose a minimum tax on income earned from foreign operations whether repatriated or not; close loopholes related to leveraged foreign distributions, covered asset acquisitions and earnings stripping; and impose an excess returns tax on inappropriate income shifting to overseas subsidiaries.

- Currently, U.S. corporations generally are allowed to deduct interest expense occurred to acquire foreign subsidiaries. The President's proposal limits interest expense deductions related to unrepatriated foreign profits.

- President Obama proposed offering a credit to companies moving jobs back to the United States and disallowing deductions related to moving jobs out of the country.