



The Obama Tax Proposal for Individuals

This information was compiled for various sources including [Kiplinger](#), [Dick Morris](#), RIA Special Study and various other sources.

President Obama is proposing personal and business tax changes both in the American Recovery and Reinvestment Act of 2009 and in the budget outline that he has submitted to congress for the next fiscal budget period. Some of these proposals will have a tremendous impact on small business owners and business in the coming years. A summary of the most impactful changes follows below:

- **Higher Taxes for Top Earners** – President Obama made a campaign promise to raise taxes on those individuals making over \$250,000 per year and the republicans in Congress do not have the votes to stop him. The top federal tax bracket will be raised from 35% to 39.6%. This is accomplished by letting the Bush tax cuts expire in 2011.
- **Itemized Deductions** – Not only is President Obama proposing to raise the top rate paid by “high income individuals” he also proposes placing new limits on all itemized deductions for these “high earners”. Currently, the proposal is to reduce the amount of the deduction for state income taxes, charitable contributions, and mortgage interest to .28 on the dollar, compared with .35 today. Charitable organizations are sure to object to this, but some reduction in benefits is likely to go through.
- **Capital Gains** – President Obama is proposing raising the capital gains rate for investments from 15% currently to 20 % in the future.
- **Middle Class** – To accomplish his goal of reducing the deficit by one-half in four years will require the “middle class” to pay higher taxes. Even though currently the proposals do not affect that group, hold on to you hats! It is coming!
- **Social Security Taxes** – This will most likely be the next shoe to drop. In his campaign, President Obama suggest that the Social Security tax equal to 6.2% of an employee’s income, (12.4% of a self-employed individuals), should be fully applied to all income above \$250,000 per year. Currently the Social Security tax is limited to the first \$106,800 of income.



- **Benefits for the Middle Class** – The American Recovery and Investment Act of 2009 (the Recovery Act) provides eligible individuals with a refundable “ Making Work Pay” income tax credit for tax years beginning in 2009 and 2010. The credit is the lesser of 6.2% of an individual’s earned income or \$400.00 (\$800.00 for a joint return). The credit is phased out completely for individuals with Adjusted Gross Income of \$95,000. (\$190,000 for joint returns). There is also an increased Earned Income Tax Credit for families with three or more qualifying children. It goes up to 45% of earnings up to \$12,570.00. The credit phases out at earnings of \$35,463 of individuals and \$40,463 for married filing joint returns. A new non-refundable credit titled the “New American Opportunity Tax Credit” is available for expenses related to qualified tuition and related expenses. The credit is up to \$2,500 per eligible students post secondary education in a degree or certificate program. The new rate is 100% of the first \$2,000.00 and 25% on the next \$2,000.00. The credit is now available for all four years of an eligible student’s education with limitations. The credit is completely phased out for individuals making more than \$90,000 per year. (\$180,000 for joint filers). The First-Time Homebuyers credit enables first time homebuyers who purchase a home before December 1, 2009 to claim a refundable credit of the lesser of 10% of the purchase price or \$7,500.00. The credit is phased out for individuals with income over \$95,000. (\$170,000 for joint filers)

As you can see from this brief summary on some of the provisions of the new tax proposal, Small Business Owners and individuals with high income are going to suffer under the new proposal.