LIFE PLANNING NEWSLETTER
THE LAW OFFICES OF JAMES A. BUSSE JR. LONG BEACH CA, CARSON CITY NV. SEPT 2010

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Planning ....**TAX TAX TAX**

What you see is not always what you get. Many people thought that their vote last election was a vote for taxing only the filthy rich and corporations. Of course Corporations either write off tax or pass it on so that fallacy is pretty easy to see through. Taxing the filthy rich in government's eyes seems to mean taxing only those who make $45,000 a year and above. That really narrows it down to a rather exclusive bunch (just about anyone who works). The new motto seems to be "if you earn it we will burn it." Or "if you make it we will take it."
Previous news letters have focused only on estate tax but now it seems the government is dedicated to making sure you have no estate to worry about. So this news letter briefly covers some of the many taxes that are scheduled to take effect Jan 1, 2011. And, these are only the federal increases. California has its own. Have you really looked at your phone bill lately?
Here they are:

Expiration of 2001 and 2003 Tax Relief act.
In 2001 and 2003, Congress enacted several tax cuts for investors, small business owners, and families. These will all expire on January 1, 2011:
Personal income tax rates will rise. The top income tax rate will rise from 35 to 39.6 percent (this is also the rate at which two-thirds of small business profits are taxed). The lowest rate will rise from 10 to 15 percent. All the rates in between will also rise. Itemized deductions and personal exemptions will again phase out, which has the same mathematical effect as higher marginal tax rates. The full list of marginal rate hikes is:
- The 10% bracket rises to an expanded 15%
- The 25% bracket rises to 28%
- The 28% bracket rises to 31%
- The 33% bracket rises to 36%
- The 35% bracket rises to 39.6%

Higher taxes on marriage and family. The “marriage penalty” (narrower tax brackets for married couples & something for gay couples to look forward to) will return from the first dollar of income. The child tax credit will be cut in half from $1000 to $500 per child. The standard deduction will no longer be doubled for married couples relative to the single level. The dependent care tax credit will be cut.

2001 Estate tax returns: (or How dare you leave anything to your family! The State is Mother Father Daughter and Son) This year, there is no estate tax but Capital Gains above $1,300,000 are generally taxed at 33%. For those dying on or after January 1 2011, there is no Capital gains tax but there is a 48-55 percent tax rate on estates over $1 million. A person leaving behind a home and a retirement account could easily incur an estate tax bill. A business is valued at 3 or 4x the annual gross so if you have a small business in your own name think what that means. Hint: Buy insurance to pay the tax.

Higher tax rates on savers and investors.
The top capital gains tax will rise from 15 % this year to 20 % in 2011. The top dividends tax rate will rise from 15 % this year to 39.6 % in 2011. These rates will rise another 3.8% in 2013.

The Health Insurance Reform Act . *Some call it Obamacare but what it really is ais a scheme so that anyone making over $44K per year as an individual or $88K/year pays the health insurance for those making less.*
There are over twenty new or higher taxes in **Obamasure**. Several will first go into effect on January 1, 2011. They include:

The Tanning Tax. This went into effect on July 1st of this year. It imposes a new, 10% excise tax on getting a tan at a tanning salon.

The "Medicine Cabinet Tax" You will no longer be able to use health savings account (HSA), flexible spending account (FSA), or health reimbursement (HRA) pre-tax dollars to purchase non-prescription, over-the-counter medicines (except insulin).

The HSA Withdrawal Tax Hike. This provision of Obamasure increases the additional tax on non-medical early withdrawals from an HSA from 10 to 20 percent, disadvantaging them relative to IRAs and other tax-advantaged accounts, which remain at 10 percent.

Brand Name Drug Tax. Starting next year, there will be a multi-billion dollar tax assessment imposed on name-brand drug manufacturers. This tax, like all excise taxes, will raise the price of medicines you buy that are not generic. (this moves us into buying more generic drugs from India, Mexico, Brazil, and Israel causing lost jobs here in the States).

Economic Substance Doctrine. The IRS will be empowered to disallow legal tax deductions because it judges the deduction or action lacks "economic substance." This is arbitrary empowerment of the IRS.

Employer Reporting of Health Insurance Costs on a W-2. This will start for W-2s in the 2011 tax year. While not a tax increase in itself, it makes it very easy for Congress to tax employer-provided healthcare benefits later.

The Alternative Minimum Tax
The major items include: The reinvigorated Non-indexed AMT will raise the tax on about 28 million families, up from 4 million last year according to the Tax Policy Center. These families will have to calculate their tax burdens twice, and pay taxes at the higher level. The AMT was created in 1969 to ensnare a handful of taxpayers.

Employer Tax Hikes
Small business expensing will be slashed and 50% expensing will disappear. Small businesses can normally expense (rather than slowly-deduct, or "depreciate") equipment purchases up to $250,000. This will be cut all the way down to $25,000. In January of 2011, all of it will have to be "depreciated."

Tax deductions Teachers Reduced.
Teachers will no longer be able to deduct classroom expenses.

Education Tax deductions and systems curtailed.
The deduction for tuition and fees will not be available. Tax credits for education will be limited. Coverdell Education Savings Accounts will be reduced. Employer-provided educational assistance is taxed. The student loan interest deduction will be disallowed most families.

Charitable Contributions from IRAs no longer allowed.
Until this year, a retired person with an IRA could contribute up to $100,000 per year directly to a charity from their IRA. This contribution also counts toward an annual "required minimum distribution." This is eliminated.

You will like the new tax structure if you don't earn anything, don't own anything, are not a US citizen or green card holder, and are deep in debt. These are the things the 2011 tax system encourages.

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