

# President's 2011 Budget Proposals Include Many Changes For Businesses and Individuals

FEBRUARY 13, 2010

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## *President Obama's 2011 Budget Proposals and the Proposed Small Business and Wages Tax Cut*

After his State of the Union Message, President Obama issued his fiscal year 2011 ("FY2011") budget proposals. To stimulate hiring of employees, the proposal includes a \$5,000 tax credit for each new worker that businesses hire in 2010. Additionally, businesses that increase wages or hours for their current workers in 2010 would be reimbursed for the extra Social Security payroll taxes they would incur. However, the budget proposals would impose higher taxes on couples making more than \$250,000 and individuals making more than \$200,000 by allowing the Bush-era tax cuts expire for these taxpayers.

The proposed "Small Business Jobs and Wages Tax Cut" would provide two credits; one to create new jobs and one to increase employees' wages and hours. The proposal includes:

- Employers would be eligible to receive a tax credit of up to \$5,000 against payroll tax liabilities for every net new employee they hire in 2010. Non-profit companies would be eligible for the credit, and start-up businesses would be eligible for one half the credit. The credit would be administered based on the employer's unemployment insurance wage base, and would be equal to roughly 72% of the unemployment insurance wage base increase, resulting in a \$5,000 credit for each new worker who earns at least \$7,000).
- Businesses will also be eligible to receive an additional payroll wage bonus, a 6.2% tax credit on aggregate wages in excess of inflation, which is designed to reimburse an employer for the Social Security payroll taxes that they pay on increases in their payroll. The wage bonus would be calculated off the employer's Social Security payroll tax base, so companies would not be eligible for the credit for increasing wages for employees already making more than the current taxable maximum of \$106,800.

In an effort to get the credits out to businesses quicker and to encourage hiring, employers would be able to claim the tax credit on a quarterly, rather than an annual, basis.

All companies with net employment increases will be eligible for these credits; however, to ensure that small businesses receive the bulk of the incentive, the maximum credit will be limited to \$500,000 per business.

**WHILE PRESIDENT  
BARACK OBAMA IS  
PROPOSING TO CUT SOME  
TAXES FOR COMPANIES  
THAT HIRE WORKERS, HIS  
2011 BUDGET PROPOSAL  
WOULD RAISE A HOST OF  
OTHER TAXES ON  
BUSINESSES AND  
WEALTHY INDIVIDUALS**

**Questions or comments?**



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The FY2011 budget also includes the following proposal for individuals, businesses and retirement savings:

- Temporarily extending the §179 maximum expense deduction of \$250,000, with an investment-based phase-out of \$800,000 for tax year 2010.
- Extending bonus first-year depreciation to apply to property placed in service in 2010.
- Entirely eliminating capital gains taxes on small business stock. A zero-percent capital gains tax would apply to qualified small business stock held for at least five years, effective for stock acquired after Feb. 17, 2009.
- The research and development tax credit, which expired on December 31, 2009, would be reinstated and made permanent effective January 1, 2010.
- Repealing the lower-of-cost-or-market inventory accounting method, effective for tax years beginning after twelve months from the enactment date.
- In an effort to increase revenues, the budget proposes to repeal the lower-of-cost-or-market ("LCM") inventory accounting method, effective for tax years beginning after twelve months from the enactment date.
- Repeal of the LIFO accounting method for inventories-Taxpayers currently using the LIFO inventory method would be required to write up their beginning LIFO inventory to its FIFO value in the first tax year beginning after 2011. Taxpayers would be permitted to take into account this one-time tax increase in gross income ratably over the ten year period beginning with the first tax year beginning after December 31, 2011.
- The 0.2% unemployment insurance surtax would be made permanent.
- Subjecting highly leveraged Wall Street firms to a Financial Crisis Responsibility Fee (the "Fee") to cover the costs of the federal government's financial institution bailout. The Fee would be levied on the liabilities, net of deposits and certain insurance policy reserves, of qualified firms with more than \$50 billion in assets. The Fee would remain in place for at least 10 years, but would continue longer if necessary to fully pay back TARP expenses. The Fee would be effective as of July 1, 2010, and would be reported annually on the companies' federal income tax return.

Questions or comments?  
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## Tax proposals for individuals include:

- Extending the Making Work Pay Credit through December 31, 2011, which results in a tax cut of up to \$400 per person (\$800 per couple).
- Making the American Opportunity Tax Credit a permanent replacement for the Hope Credit, providing a credit of up to \$2,500/year for the first four years of post-secondary education.
- Extending the optional deduction for state and local general sales taxes through December 31, 2011.
- Increasing the Child and Dependent Care tax credit for families earning up to \$113,000/year.
- Increasing the highest marginal income tax rates for higher-income taxpayers. For tax years after 2010, the proposal would reinstate the 36% tax rate for those with taxable income above the following amounts (subject to indexing for inflation): \$250,000 less the standard deduction and two personal exemptions, for married taxpayers filing jointly; and \$200,000 less the standard deduction and one personal exemption, for single filers. The budget proposal calls for the expansion of the 28% bracket so that the taxpayers earning less than the above-noted amounts would not see a tax increase.
- Allowing the 2001 marginal income tax rate reductions to expire, thereby reinstating the 39.6% tax rate beginning in 2011. This highest marginal tax rate would apply to taxpayers with taxable income over \$373,650 before an inflation adjustment.
- For higher income taxpayers, reinstating the phase-out of itemized deductions and the personal exemption beginning in 2011.
- Extending the 65% COBRA premium subsidy to cover workers involuntarily terminated before December 31, 2011.

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## Tax proposals for retirement savings include:

- Simplify and expand the Saver's Credit to match 50% of a contribution up to \$500 per individual (\$1,000 per couple) for families earning up to \$65,000 (with smaller credits for those earning up to \$85,000). Additionally, the proposals would make the saver's credit a refundable credit.
- Creating a system of automatic workplace IRAs to expand access to tax-favored retirement savings, in an effort to bolster employee retirement savings. Employers automatically enrolling their employees in IRAs be eligible to receive tax credits of up to \$250/year for two years.
- Doubling the maximum credit for small employers that establish new retirement plans to \$1,000/year for three years.

Keep in mind that all of the budget recommendations outlined above are only proposals and must still be enacted into law by Congress. We will continue to monitor the progression of these proposals through the legislative process and invite you to contact your local WS+B advisor to discuss the impact that these potential law changes may have on you and/or your business.

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*If you have any questions, please contact the WS+B Tax Services Group.*



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