



Martin H. Abo, CPA/ABV, CVA ■ Abo and Company, LLC

PRESIDENT OBAMA AND YOUR TAXES

Here's how President-elect Barack Obama's proposals could affect your taxes...

- **Income taxes.** Expect an increase for upper-bracket taxpayers.

Proposed: An increase in the highest federal tax rates. In 2009, taxpayers pay the top 35% rate on taxable income over \$372,950. The top rate could go to 39.6%, but probably not until 2010. This increase also might hit taxable incomes in the \$250,000 to \$372,950 range. Currently, such taxpayers pay 33% on such income. This rate could go to 36%.

Similarly, taxpayers with incomes over \$250,000 (married filing jointly) would face long-term capital gains rates as high as 20%, versus the 15% maximum federal rate now in effect. (However, investors in start-up companies would owe no capital gains tax at all when they ultimately sold their investment in the venture.)

- **Payroll taxes.** In 2009, the first \$106,800 of earned income is subject to the Social Security tax of 12.4% (employee and employer each pay half, or 6.2%). All earned income is subject to Medicare tax, which totals 2.9% (employee and employer each pay 1.45%).

Proposed: The initial tier of \$106,800 in earnings (indexed for inflation) would remain subject to Social Security tax. All earned income over \$250,000 might ultimately be subject to a payroll tax of 2% to 4%. Wages between \$106,800 and the \$250,000 threshold would not be taxed for Social Security purposes.

- **Estate tax.** Under current law, the federal estate tax exemption will rise from \$2 million in 2008 to \$3.5 million in 2009. Estate assets over this amount are taxed at 45%. In 2010, the federal estate tax is scheduled for a one-year total repeal.

It's a near certainty that the federal estate tax won't be repealed, even for one year. One scenario has the \$3.5 million estate tax exemption and the 45% estate tax rate remaining in place after 2009. A heavily Democratic Congress, though, may prefer a \$2 million exemption and a 55% tax rate on estate assets in excess of \$3 million.

- **Tax relief.** Although tax increases for the "rich" probably are in the cards, lower- and middle-income taxpayers would receive some tax relief. In fact, if the current economic slowdown and market turmoil persist through 2009, tax increases could well be postponed while tax *cuts* move to the forefront as a way to stimulate the economy.

Proposed: For those age 65 and older making up to \$50,000 a year, Obama has called for income tax to be eliminated. Home owners who don't itemize deductions would get a tax credit of 10% of their mortgage interest payments (up to \$800). ■ ■

Bottom Line/Wealth interviewed Martin H. Abo, CPA/ABV, CVA, principal of Abo and Company, LLC, with offices in Voorhees, New Jersey, and Morrisville, Pennsylvania. He has advised clients on income taxes and estate taxes for more than 35 years. www.aboandcompany.com.

Copyright © 2007 by Boardroom Inc., 281 Tresser Blvd., Stamford, Connecticut 06901-3226. www.BottomLineSecrets.com