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What Does President Obama's 2016 Budget Proposal Mean to Taxpayers?

By Larry Brant on 2.10.15 | Posted in Estate Tax, Individual Income Tax, Legislation, Tax Basis, Tax Laws

President Obama's 2016 budget proposal includes provisions which, in the aggregate, increase income tax revenues by approximately \$650 billion over 10 years. At least three of the proposed tax increases will be of concern to a broad spectrum of taxpayers:

1. President Obama proposes to increase both capital gains and dividend tax rates to 28%. This rate hike will apply to many taxpayers. It represents an increase of approximately 40% over the previous rate of 20% that came into play in 2013, and an increase of approximately 87% over the previous rate of 15% that we enjoyed from 2003 to 2013.
2. President Obama proposes to abolish a taxpayer's ability to obtain a basis step-up upon receipt of an asset from a bequest. Also, he proposes that bequests and gifts be treated as realization events, triggering a capital gains tax. His proposal also provides that decedents would be allowed a \$200,000 per couple (\$100,000 per individual) exclusion for capital gains. There would be a separate exclusion of \$500,000 per couple (\$250,000 per individual) for personal residences. The President proposes to exclude tangible personal property and family-owned and operated businesses from this tax change.
3. President Obama proposes to return the estate tax rules to the 2009 laws. This would result in the unified credit being reduced from the current \$5.43 million level (indexed for inflation) to a \$3.5 million level (without an inflation index).

These three changes to the income tax code alone would raise \$208 billion over 10 years. Time will tell whether lawmakers will enact this part of the President's budget proposal. While these provisions will certainly raise tax revenues, they appear to be counter to the administration's goal of creating a "simpler, fairer and more efficient tax system." If these proposals are pushed forward, the President's budget proposal will likely face significant turbulence.

Tags: Estate Tax, legislation, President Obama