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Proposed Tax Changes in the Green Book

On February 13th the United States Treasury released its Green Book which is the Treasury's explanations of the Administration's Fiscal Year 2013 revenue proposals. There are many proposed tax changes, which are significant. These are the Administration's proposals and will have a long road before they become law. Below is a list of some of the major tax proposals:

- The payroll tax cut currently in place for January and February of this year would be extended for the rest of 2012.
- The 100% bonus first-year depreciation would be extended through 2012.
- Use of the last-in, first-out (LIFO) accounting method would be repealed, for tax years beginning after December 31, 2013.
- For tax years beginning after December 31, 2013, bar the use of the lower-of-cost-or market and subnormal goods methods of inventory accounting.
- Effective after 2013, require employers in business for at least two years that have more than ten employees to offer an automatic IRA option to employees, under which regular contributions would be made to an IRA on a payroll-deduction basis.
- The existing 100% gain exclusion for qualified small business stock (QSBS) acquired after December 31, 2011 would be made permanent.
- Tax certain "carried interest" as ordinary income, instead of capital gains rate. This item has been proposed on many occasions but so far has not been enacted as it has a strong opposition from the private equity groups.
- Effective for expenses paid or incurred after the date of enactment, create a new general business credit against income tax equal to 20% of the eligible expenses paid or incurred in connection with insourcing a U.S. trade or business.
- Effective for expenses paid or incurred after the date of enactment, deductions for expenses paid or incurred in connection with outsourcing a U.S. trade or business would be disallowed.
- Retroactively effective after December 31, 2011, make the research credit permanent and increase the rate of the alternative simplified research credit from 14% to 17%.
- For tax years beginning after December 31, 2012, reinstatement of upper-income taxpayers' reduction of itemized deductions and phase-out of personal exemptions.
- The expiration of the 2001 and 2003 tax cuts for those with household income over $250,000 a year for joint filers ($200,000 for single taxpayers), effective after 2012.
- For dividends received after December 31, 2012, the current reduced tax rates on qualified dividends would expire for income that would be taxable in the 36% or 39.6% brackets. In other words, qualified dividends for upper income taxpayers would be taxed as ordinary income.
- For long-term capital gains realized after December 31, 2012, the current reduced tax rates on long-term capital gains would expire and would be taxed at 20% for upper-income taxpayers.
- For tax years beginning after December 31, 2012, the tax value of specified deductions or exclusions from AGI and all itemized deductions would be limited to 28% of the specified exclusions and deductions that would otherwise reduce taxable income in the 36% or 39.6% tax brackets.
- The estate, generation-skipping transfer, and gift tax rate would be 45% and the exclusion amount would be $3.5 million for estate and generation-skipping taxes, and $1 million for gift taxes. These changes would apply for estates of decedents dying, and for transfers made, after December 31, 2012.
- A grantor retained annuity trust (GRAT) would be required to have a minimum term of ten years and a maximum term of the life expectancy of the annuitant plus ten years.

Finally, the Administration's budget calls for increases in IRS's tax enforcement and compliance budget to enable IRS to more effectively crack down on "tax cheats and delinquents," and implement many recent tax law changes.

Contact your Green Hasson Janks tax advisors to discuss how these proposed changed may affect you or your business, at (310) 873.1600 or www.greenhassonjanks.com