



Tax Policy and Uncertainty: the Road Ahead

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Agenda

Initial Observations

Election Outcome and Impact on Tax Policy

Budget Challenges

Lame Duck

Rates, Estate Tax and AMT

What's Next?

Initial Observations

- Tax policy is being driven by congressional leadership
- Business community and upper income individuals looked to as revenue stream
- Tax hikes paying for increased spending
- Unprecedented tax uncertainty for individuals

Election Outcome and Impact on Tax Policy

2010 Mid-Term Election Outcome

	Democrat	Republican	Independent
House – Before*	255	178	0
House - After	189	240	0

	Democrat	Republican	Independent
Senate - Before	57	41	2
Senate - After	51	47	2

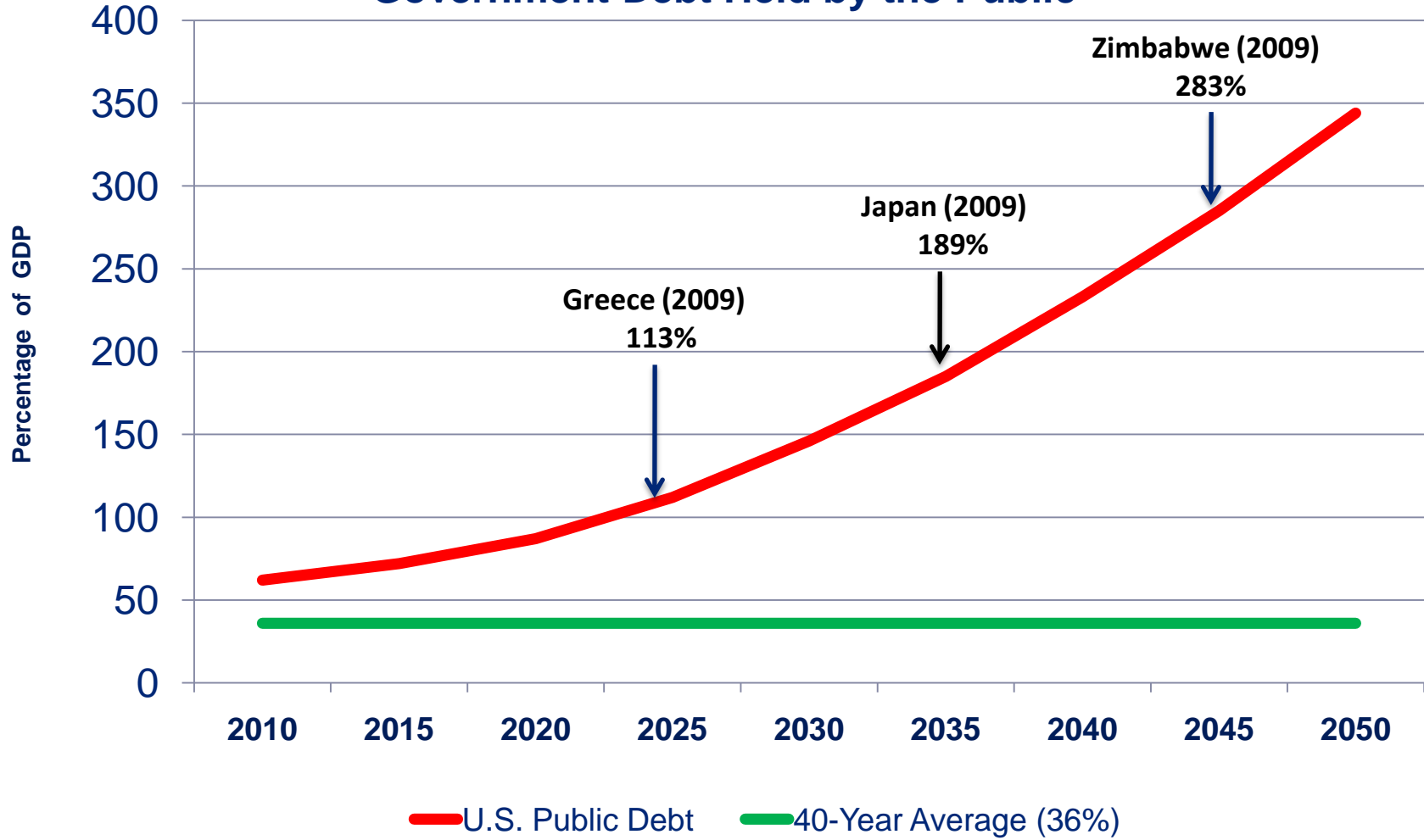
What Does it Mean?

- Race for 2012 began November 3
- Congress will be more sharply divided next year
- Focus on spending cuts at first
- Senate still a vote counting exercise
- More emphasis on regulatory process
- New republican taxwriters

Budget Challenges

The Challenge Ahead

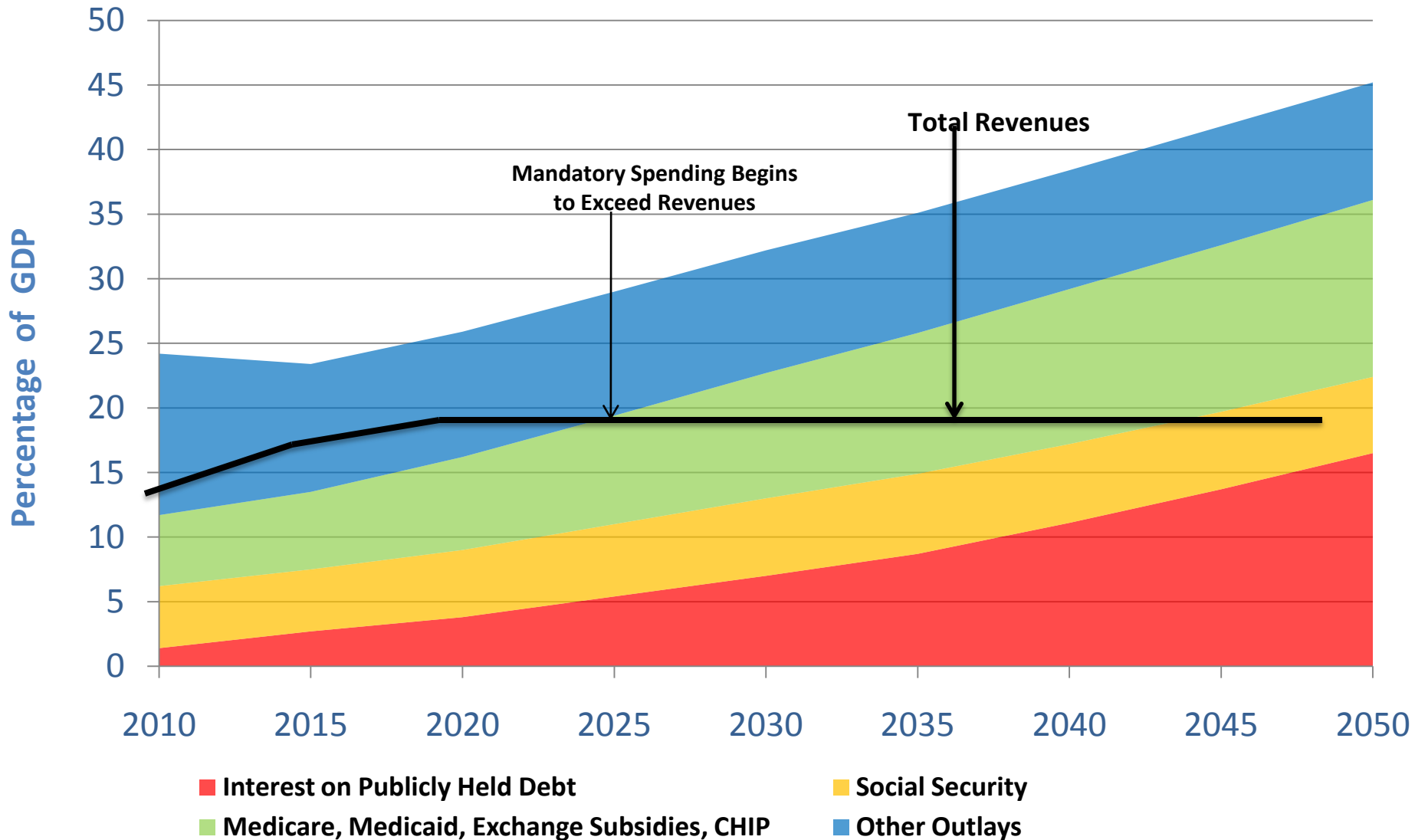
Government Debt Held by the Public



Sources: U.S. Data from Congressional Budget Office; Long-Term Budget Outlook (June 2010; Alternative Fiscal Scenario).
Other Country Data from CIA; *The World Factbook*.

The Revenue/Spending Squeeze

Projected US Total Outlays
Current Policy



Source: Congressional Budget Office; Long-Term Budget Outlook (June 2010; Alternative Fiscal Scenario).

Lame Duck

Lame Duck



Extenders

- Reinstate expired tax provisions
 - R&E tax credit
 - Subpart F active financing exemption
 - CFC look-through treatment
 - 15 yr. recovery period for leasehold improvements and restaurant property
 - State sales tax deduction
 - New Markets Tax Credit
- Energy incentives

Revenue Offsets and Trends

- Current revenue offsets for extenders
 - Carried interest
 - Corporate changes
 - Oil spill liability tax
- Will we see extenders completed in lame duck?
- Permanent tax increases for temporary extension of incentives

Rates, Estate Tax and AMT

Current Tax Rate Landscape

Tax rates	Current law – 2010	Current law – 2011	Proposed – 2011
Ordinary income	35 %	39.6%	39.6%
	33 %	36%	36%
	28%	31%	28%
	25%	28%	25%
	15%	15%	15%
	10%	15%	10%
Dividends	15%	39.6%	20%
Long-term capital gains	15%	20%	20%
PEP & Pease limitations	Gone	Restored	Restored for high-income

Individual Tax Rates

- PAYGO rules provide baseline relief for middle class taxpayers only
- Temporary or permanent fix?
- Several scenarios for outcome of debate
 - President's proposal
 - Extend all rates temporarily
 - Compromise that involves tax increase on wealthy
 - Political fireworks
- Another year of AMT “patch”

Estate Tax

- Estate tax rate is now zero
- Political battle over rate and exemption level
- Debate over options
 - Freeze at 2009 levels (exemption: \$3.5 million per person/ \$7 million per couple with rates: 18 to 45 percent)
 - More generous rates/exemption level
 - Return to prior law (top rate of 55 percent with \$1 million exemption)

What's Next?

Outlook

- PERAB report and the Deficit Commission
 - Will Commission provide impetus for change?
- Status of corporate tax reform
- President's February budget message
 - Numerous revenue offsets still pending from budget proposals

What Can Taxpayers Do Now?

- Watch the transition issues
- Find the business risks and opportunities
- Evaluate pre-2011 decisions
- Be ready to react to change quickly

Questions?

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