

# SPAIN HASTINGS

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## **Client Update: Proposed Tax Increases in President Obama's First Budget Proposal**

March 1, 2009

On February 26, President Obama unveiled his first budget proposal. The 2010 budget proposal reportedly would increase federal taxes by about \$1 trillion over the next decade on the highest earning taxpayers, small businesses, multinational corporations and oil companies.

### **Individuals & Small Businesses**

President Obama would raise the top income tax rate to 39.6 percent, up from 35 percent. This rate increase would reportedly affect approximately 2.6 million taxpayers. The President would also raise the tax rates on capital gain rates and dividends from 15 percent to 20 percent. The increase in the top personal income tax rate would affect pass-through business entities such as S Corporations, limited partnerships and limited liability companies who are effectively taxed at the personal income tax rate of the individual owners of such businesses.

### **Large Businesses, Multinational Corporations & Oil Companies**

The President proposes to raise revenue from multinational corporations totaling about \$353.5 billion over 10 years. It has been estimated that the proposal would increase taxes on oil companies by approximately \$31.5 billion over 10 years by eliminating certain tax breaks, such as:

- Repeal of expensing of intangible drilling costs
- Repeal of percentage depletion for oil and natural gas
- Repeal of Section 199 deduction for oil and natural gas companies
- Repeal of the enhanced oil recovery credit
- Repeal of the marginal well tax credit

### **Enforcement**

The President's budget proposal would codify the economic substance doctrine. The codification of this legal doctrine may bolster the IRS's ability to recharacterize the tax-treatment of certain transactions in ways that will be advantageous to the IRS at the expense of taxpayers. The budget also includes about \$210 billion that the President pledges to raise from establishing international enforcement policies. Together, these proposals seem to indicate that IRS enforcement actions will be more robust under the new administration.

### **Estate Tax**

The President's budget proposal would make the current estate tax rate of 45 percent and exemption amount of \$3.5 million permanent.

### **Budget Process**

We will keep you updated as the budget process continues and the federal budget bills make their way through the House and Congress.

**Contact Us.** If you have questions or comments about this Client Update, please reply to [dmccullough@spain-law.com](mailto:dmccullough@spain-law.com).

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