Green Hasson Janks & Tax Services
ALERT
Relevant Alerts
Direct to Your Inbox

April 22, 2013

Proposed Tax Changes from the "Green Book"

Dear Friends & Clients:

The United States Treasury recently released the so-called "Green Book" which is the Administration's Fiscal Year 2014 Revenue Proposals. The Green Book is the President's wish-list of tax changes, and as usual, this year's wish-list is a cornucopia of tax proposals - past and present. The proposals include tax changes for businesses and individuals. Below, is a list of the major tax proposals in this fiscal year's budget:

Proposed Business Tax Changes

• Extend the $500,000 limit for expensing qualified property of a small business (indexed for inflation for tax years beginning after 2013) permanently.

• Enhance and permanently extend the research tax credit.

• Permanently extend the work opportunity tax credit (WOTC).

• Offer a one-time, temporary 10% tax credit for increases in companies' wage payments over wages paid in 2012. The credit would be available for businesses with less than $20 million of total wages paid in 2012—for up to $5 million in increased wages.

• Effective after Dec. 31, 2014, require employers that have been in business for at least two years, have over 10 employees, and do not currently offer a retirement plan to enroll their employees in a direct-deposit Individual Retirement Account (IRA) that is compatible with existing direct-deposit payroll systems.

• Reform the tax treatment of derivative contracts by requiring that all such contracts be "marked to market," with resulting gains and losses taxed each year and treated as ordinary income.

• Eliminate special depreciation rules for corporate jets by increasing the depreciation period from five to seven years.

• Lower the Electronic Wage Reporting Threshold for W-2/3s from 250 employees to 50.

• Repeal the last-in, first-out (LIFO) accounting method. Taxpayers required to change from the LIFO method also would be required to report their beginning-of-year inventory at its first-in, first-out (FIFO) value in the year of change, causing a one-time increase in taxable income that would be recognized ratably over 10 years.

• Bar the use of the lower-of-cost-or market and subnormal goods methods of inventory accounting.

• Repeal the "boot-within-gain" limitation for dividends received in reorganization exchanges.

• Expand the definition of "built-in loss" for purposes of partnership loss transfers.

• Deny deductions for punitive damages.

• Make the 100% exclusion for qualified small business stock (QSBS) permanent.

• Tax certain "carried interest" income as ordinary income.

• Repeal "technical terminations" of partnerships.

• Make the tax credit for the production of renewable energy permanent and refundable.

Tax Changes for Individuals

• Reduce the value of itemized deductions and other tax preferences to 28% for families with income in the top three highest tax brackets.

• Implement the "Buffett rule" requiring taxpayer with income over $1 million to pay at least 30% of income in taxes.

• Prohibit individuals from accumulating over $3 million in tax-preferred retirement accounts.

• Require non-spouse beneficiaries of deceased IRA or annuity (IRA) owners and retirement plan participants to take inherited distributions over no more than five years.

Estate and Gift Tax Proposals

• Beginning in 2018, return the estate, generation-skipping transfer (GST), and gift tax exemption and rates to 2009 levels. Thus, the top tax rate would be 45%, and the exclusion amount would be $3.5 million for estate and GST taxes, and $1 million for gift taxes.

• Requiring a GRAT to have a minimum term of ten years and a maximum term of the life expectancy of the annuitant plus ten years. Also, the remainder interest would have to have a value greater than zero at the time the interest is created and any decrease in the annuity during the GRAT term would be prohibited.

International Tax System

Proposed changes are broad including:

• Deferring the deduction of interest expense allocated to a U.S. taxpayer's foreign-source income that is not currently subject to U.S. tax until such income is subject to U.S. tax.

• Changes to the manner in which multi-national corporations benefit from foreign tax credits as a result of receipt of a dividend from a foreign subsidiary.

• Making transfers by a U.S person of an intangible to a controlled foreign corporation (CFC) subject to additional taxes under certain circumstances.

• Tax gain from the sale of a partnership interest on look-through basis.

• Prevent use of leveraged distributions from related foreign corporations to avoid dividend treatment.

These proposals are part of a large package of revenue raisers and tax incentives included in the Green Book. Each of these proposals is subject to an uncertain future in the U.S. Congress. We will continue to monitor and report progress of all major legislative developments in future tax alerts. If you have any immediate questions, please do not hesitate to contact your Green Hasson Janks tax advisor.