

## Who Saves the Most On Taxes?

On October 31, 2008, the Joint Committee on Taxation published an explanation of the federal tax expenditures. The hundreds of tax expenditures in the federal budget include several major tax benefits. The top three tax benefits were the health exclusion, retirement and fringe benefits and home mortgage deductions.

The top seven benefits and the cost (in billions of dollars) to the Federal Government are as follows:

Benefit	Cost
1. Health Exclusion	\$116.8 B
2. Retirement/Benefits	\$89.8 B
3. Home Mortgage Deduction	\$67 B
4. Earned Income Tax Credit	\$48.6 B
5. State And Local Tax Deduction	\$48 B
6. Charitable Deductions	\$44.3 B
7. Medicare Benefits	\$41 B

The health exclusion cost is the tax-free benefit to the employee, but is deductible to the employer. Retirement and other fringe benefits are generally deductible for the employer and not taxable to the employee until paid out.

Home mortgage interest is deductible on personal residences. The earned income tax credit is refundable and assists lower income families with jobs. State and local taxes are deductible on the federal return.

The charitable deductions include gifts of cash up to 50% of income, appreciated property gifts up to 30% of income and various other types of gifts such as enhanced deductions for corporate gifts of inventory.

Finally, the Medicare benefit includes the value of Part A hospital benefits, Part B medical care benefits and Part D prescription drug benefits. The portion of Medicare benefits provided by the government is not taxable to the individual.

**Editor's Note:** While the incoming Congress and President have not yet drafted plans to make major changes in these areas, Sen. Max Baucus (D-MT) sent a letter this week to President-elect Obama. Sen. Baucus, Chair of the Senate Finance Committee, plans to introduce major healthcare reform legislation in early 2009. The legislation will follow several "key principles" identified by Sen. Baucus as "universal coverage...sharing the burden...controlling costs...prevention...shared responsibility."

## Tax Changes Coming in 2009 and 2010

In January, a new Congress with a larger Democratic majority in the House and Senate and President-elect Obama will take office. With the economic uncertainty, the initial focus will be on economic stimulus. However, Speaker Nancy Pelosi (D-CA) indicates that a tax bill will

also be forthcoming.

Taxes are nearly certain to undergo substantial changes within the next two years. At present, the following tax provisions are scheduled to be modified after 2010.

Tax Category	Modified Provision
Tax Brackets	35% increased to 39.6%
	33% increased to 36%
	28% increased to 31%
	25% increased to 28%
	10% increased to 15%
Capital Gains	15% rate increases to 20%
Dividends	15% rate up to 39.6% (for top incomes)
Estate Tax	Projected full repeal in 2010, \$1M exemption and 55% rate in 2011

**Editor's Note:** By late 2009 it is highly probable that Congress will act to modify the estate tax provisions. The current Democratic proposal is to extend the \$3.5M exemption and the 45% tax rate.