



Robert W. Wood

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Obama Pitches Capital Gains Hike To 28% In 'Simpler, Fairer' Tax Code

Right before his State of the Union address to a Republican controlled Congress, President Obama has thrown down a tax gauntlet, proposing \$320 billion in tax hikes. His signature ideas would make community college free, and would extend sick leave to working families. But his massive batch of tax hikes is unlikely to be met with applause, even though he has cleverly invoked Ronald Reagan's name to sell yet another big capital gains rate hike.

During Reagan's years, Mr. Obama will note, the top capital gains rate was 28%. Today, our top rate is 20%, right? Not really. President Obama *already* raised it from 15% to 20%, and even that isn't accurate. Long term capital gains today are hit with 23.8%, 3.8% being the President's net investment income tax that was enacted to help fund Obamacare. Of course, that 3.8% tax is only one of many taxes imposed by Obamacare.

In all, the President is drawing a line between the liberal base of the Democratic Party, and the higher income persons that are more likely to support Republicans. Those higher income types exploit loopholes, we're told, so the President calls for \$320 billion in tax increases over 10 years. The top 28% capital gains rate will apply to dividends too, but in both cases only for couples making more than \$500,000 per year.

Mr. Obama's package also includes a new tax on financial firms having over \$50 billion in assets, supposedly to discourage risky borrowing. President Obama claims he will simplify our complex tax code and make it fairer. One 'loophole' he says is egregious appears to relate to step up in basis, despite the fact that it is one of the hallmarks of the interaction between the income tax and the estate tax.

Although assets upon death may be subject to estate tax, the assets are stepped up to market value for income tax purposes. Otherwise, one would pay both income and estate tax on the same dollars. Appearing to call this basis step up a 'loophole,' the President has suggested it is a huge scam that wealthy people exploit. If this is indeed the huge loophole the President's simpler fairer tax code would close, it seems unlikely to function simply or fairly.

Yet any hope the plan has may already be fanciful in the new Congress. With a populist brush, the President wants to close what he claims are huge loopholes that allows wealthy Americans to escape tax. In ways that are not yet clear, the President says he will make big companies pay too. On the lower end of the economic spectrum, Obama wants to triple the Child Care Tax Credit, providing up to \$3,000 per child under 5.

The President would provide students up to \$2,500 a year toward completing a college degree. The President has also proposed making the first two years of community college free. The bill will include retirement savings incentives too, ostensibly giving 30 million more workers the opportunity to save for retirement through their employer. More about the President's simpler and fairer tax code can be found [here](#).

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