

Tax Changes: Lessons From the Past



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...your bridge to clarity

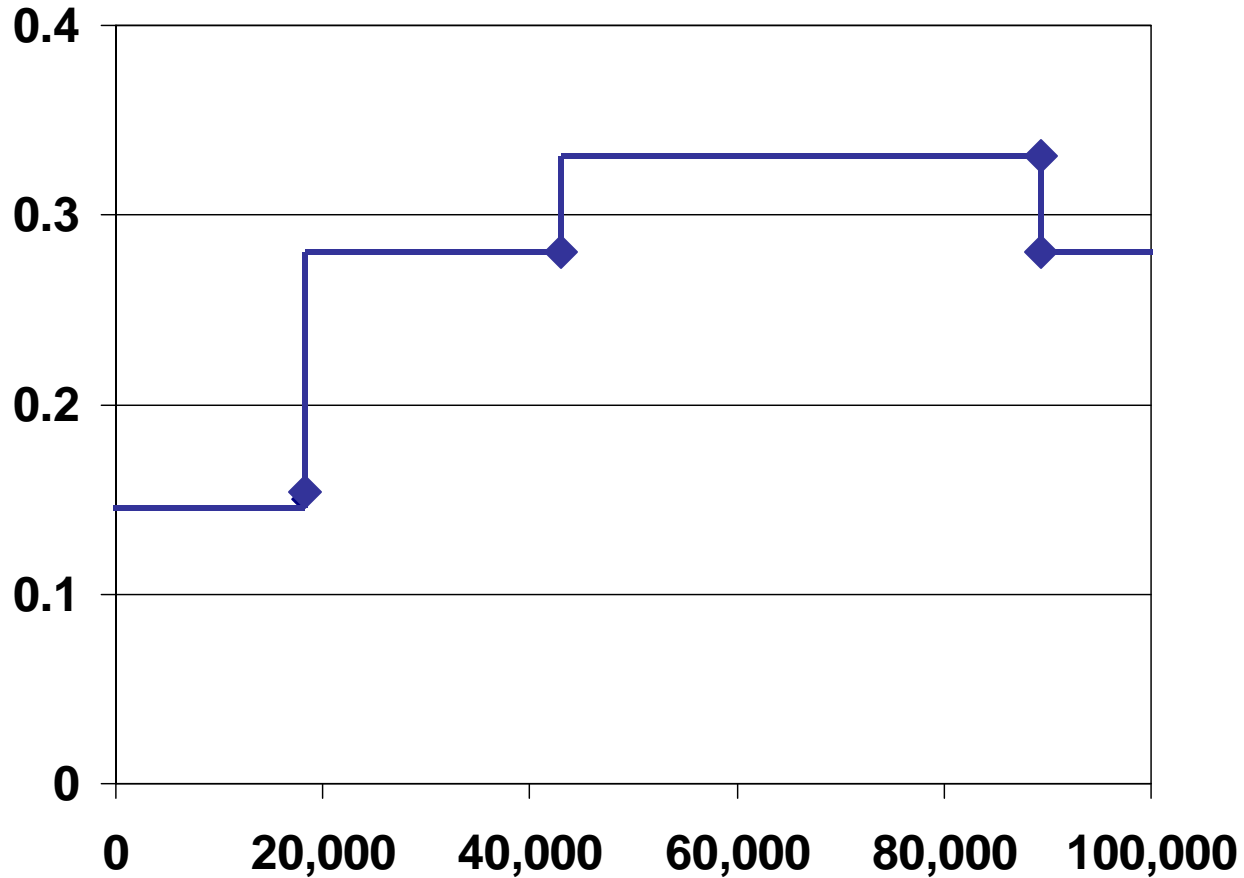
Individual Tax Rates Changes of Interest

- 1986 – 1987
 - Tax Reform Act of 1986
- 1989 – 1990
 - Revenue Reconciliation Act of 1990
- 1992 – 1993
 - Revenue Reconciliation Act of 1993
- 2000 – 2001
 - Economic Growth and Tax Relief Reconciliation Act of 2001

Tax Reform Act of 1986

- Pre Act of 1986:
 - Complicated 15 bracket system
 - Individual tax rates up to 50 percent
- Post Act of 1986:
 - Two bracket system put in place
 - Tax rates from 15 to 28 percent.
 - Third bracket of 33 percent to clawback 15 percent bracket

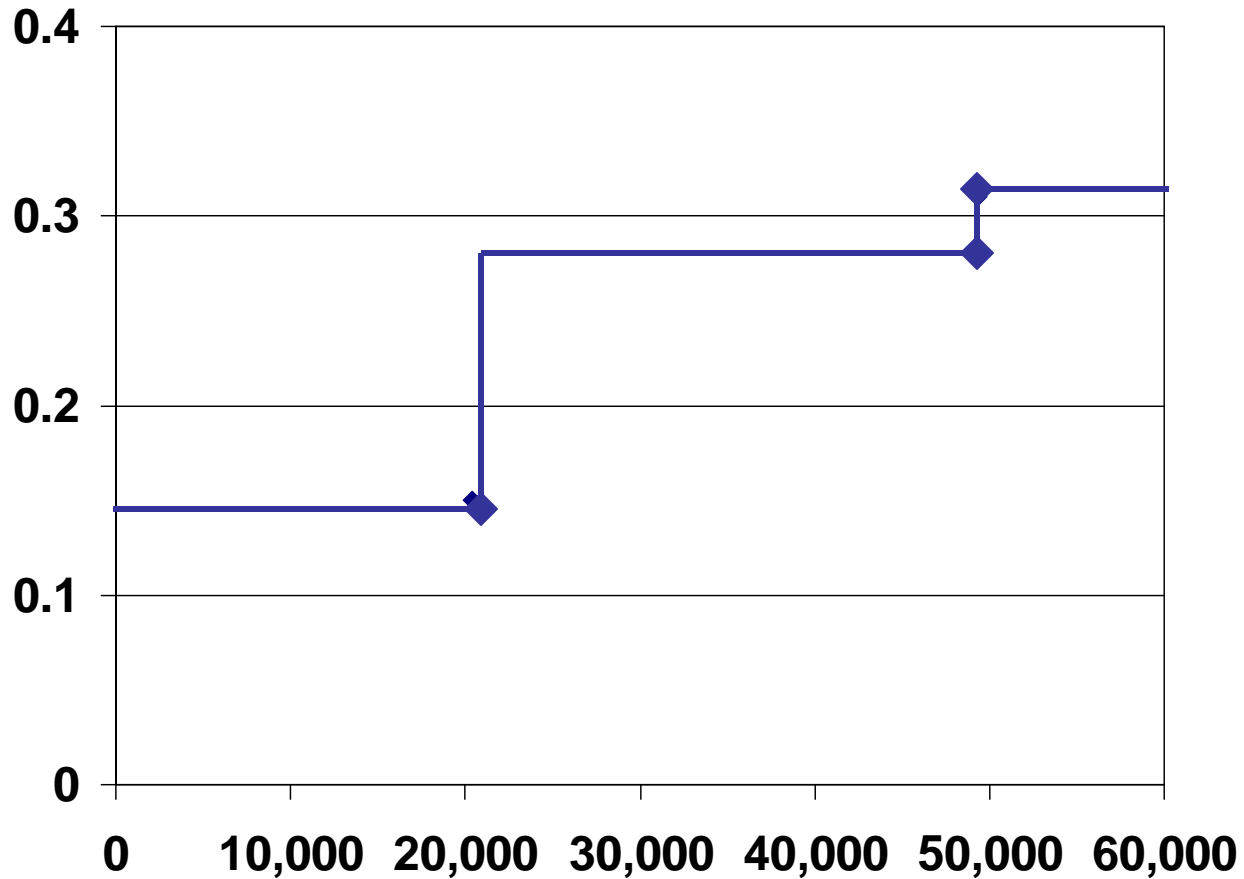
Individual Tax Rates after 1986



Revenue Reconciliation Act of 1990

- Top marginal bracket reduced to 31 percent
- Benefit of lower bracket not clawedback

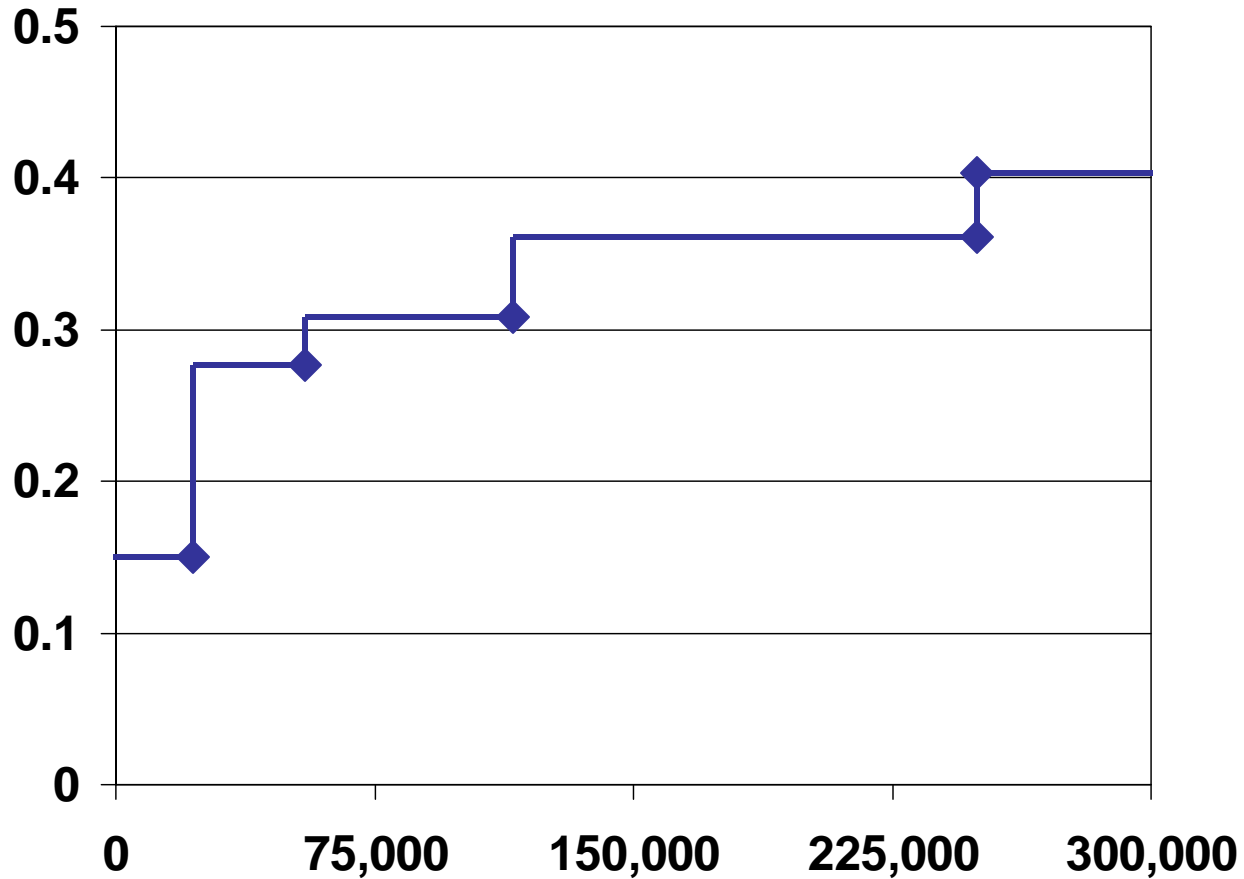
Individual Tax Rates after 1990



Revenue Reconciliation Act of 1993

- 36 percent and 39.6 tax bracket added
- Law was passed August 10, 1993
 - Sec. 15 prohibits retro tax increases
 - Surtax used to retro the rate change back to January 1, 1993

Individual Tax Rates after 1993



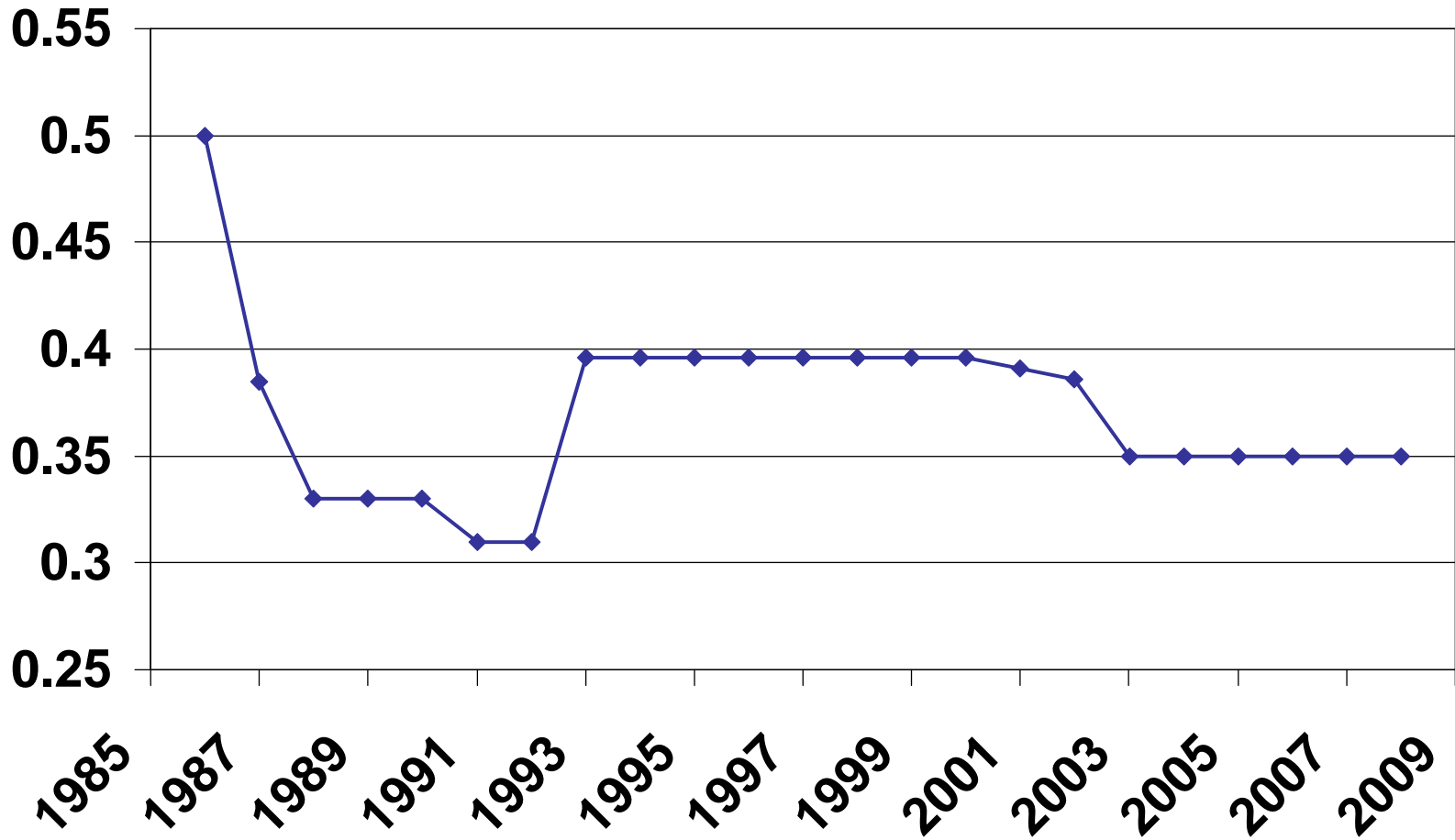
Economic Growth and Tax Relief Reconciliation Act of 2001

- A new bracket system was put in place
- Planned reduction in tax rates for the next six years
- Tax rates for 2006 accelerated to 2003

Economic Growth and Tax Relief Reconciliation Act of 2001:

2001	10%	15%	27.5%	30.5%	35.5%	39.1%
2002	10%	15%	27%	30%	35%	38.6%
2004	10%	15%	26%	29%	34%	37.6%
2006	10%	15%	25%	28%	33%	35%

Top Individual Tax Rates Since 1986



Deceit of 1990

- Advertised as tax rate reduction
- Actually increased tax for high income individuals
- Tax of 33 percent on income between \$47,050 and \$97,620 before change
- Tax of 31 percent on income over \$49,300
 - A lower tax over a broader range of income
 - Gives an effective tax that is higher than before on income over \$150,000

Deceit of 1993

$$\begin{array}{r} 39.6 \\ + <31> \\ \hline 8.6 \\ \hline \hline \end{array}$$

$$\begin{aligned} 8.6/12 &= .716 \\ .716 * 7.34 &= 5.25 \end{aligned}$$

$$\begin{array}{r} 31 \\ + 5.25 \\ \hline 36.25 \\ \hline \hline \end{array}$$

- The time between January 1, 1993 and August 10, 1993 was about 7.34 months
- Congress took the new rate of 39.6 percent and blended the increase prorata over the year under Sec. 15
- Added desired top bracket of 39.6 percent bracket and legalized by calling a surtax and setting up unique payment plan

“Don’t tax me and don’t tax thee:
tax the man behind the tree”

Wilbur Mills

Chairman of House Ways and Means

1980’s

Hypothetical Tax Rate Change for 2009

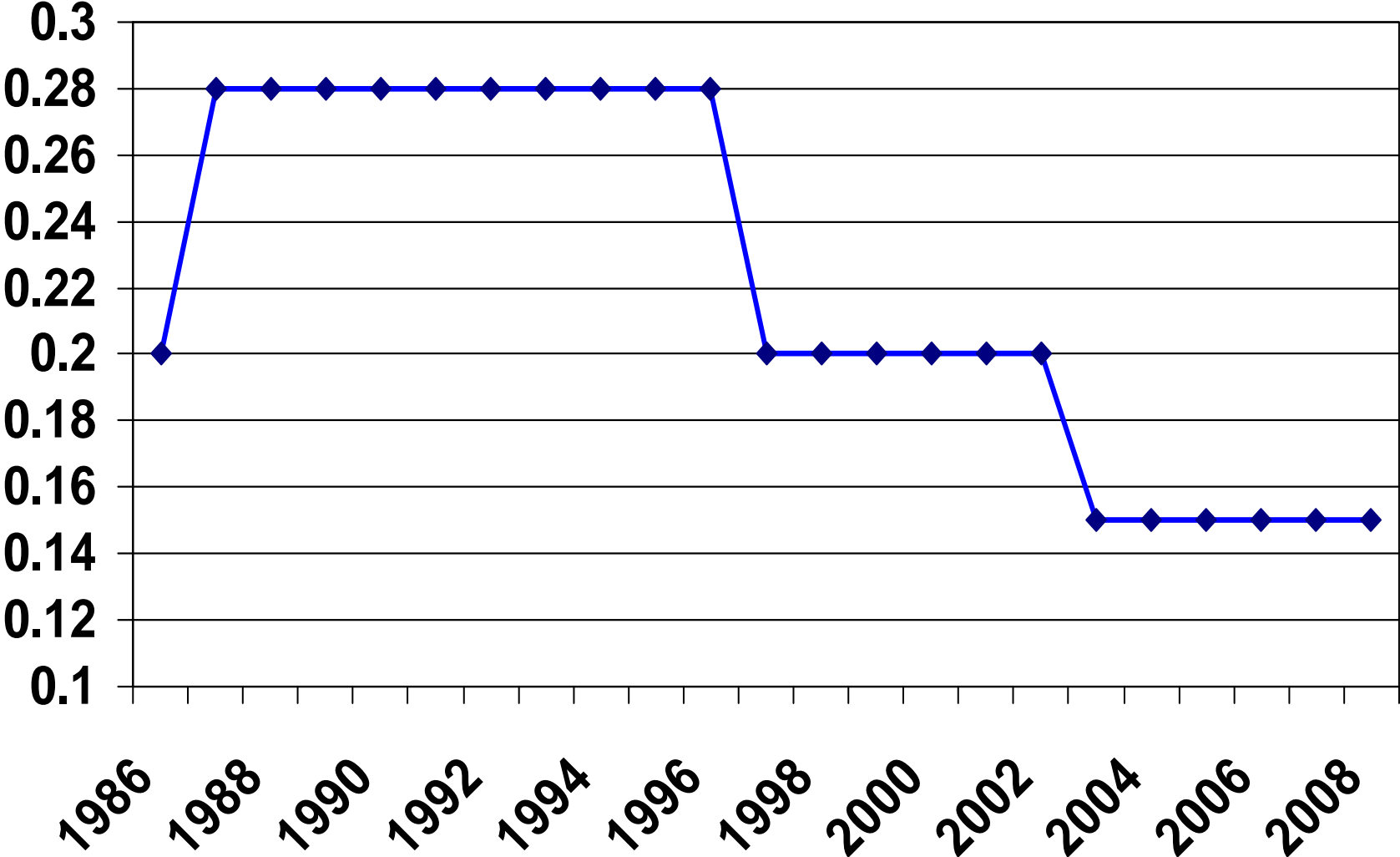
Congress feels the man behind the tree has income over \$200,000 per year. On May 1, 2009, new legislation is signed by President Obama designed to raise taxes from 33 percent tops to 45 percent tops. For 2009, the required blend of 41 percent is imposed on income between 200k and 300k. For greater income, a 4 percent surtax a' la 1991 is used to achieve the desired 12 percent rate increase.

**BOTTOM LINE: 2008 WAS THE LAST LOW
TAX YEAR**

Capital Gains Changes of Interest

- 1986:
 - Tax Reform Act
 - Increased Capital Gains tax rate to 28 percent
- 1997:
 - Taxpayer Relief Act of 1997
 - Decreased Capital Gains tax rate to 20 percent
 - Effective Date : May 6, 1997
- 2003:
 - Jobs and Growth Tax Relief Reconciliation Act of 2003
 - Decreased Capital Gains tax rate to 15 percent
 - Effective Date : May 6, 2003
 - Sunsets at the end of 2010

Capital Gains Tax Rates



Conclusion

- From the last 20 years of tax legislation we conclude 2008 is likely the last year we enjoy low, 35 percent ordinary and 15 percent capital gain, Federal tax rates.

Tax Planning for Expected Rate Increases

- Accelerate income into 2008
- Postpone deductions until 2009

Accelerate Income Into 2008

- Pension plan withdrawals
- Year-end bonuses
- Closely held C-Corporation dividends
- Prepaid income for cash basis taxpayers
- Transaction closings

Postpone Deductions Until 2009

- Tax payments
- Medical expenses
- Charitable contributions
- Discretionary pension plan contributions

Tax Planning Tools Increase In Value

- Pension and Profit-Sharing Plans
- Charitable Trusts
- Tax-Exempt Bonds

...Plus a Host of Others

Final Thought

- With higher rates, alternative minimum tax recedes. This makes deductions like state income taxes once again valued assets in the Federal tax equation.