



steven **PODNOS**

New Frontiers in Taxation

Reassessing Your Liability

Whether or not NASA is granted enough money to continue the exploration of space in future years is uncertain. What is certain is the strong likelihood that your taxes will go up.

Government debt is skyrocketing, and increasing revenues from taxation is on the legislative agenda of Congress in a number of ways. Here are some expected changes to watch for:

Income Taxes

These will certainly be increased for those with higher income, with tax rates for highest income around 39-40% in 2011. In addition, capital gains taxes and levies on dividend income will probably increase at that time.

Estate Taxation

In 2009, an individual may leave \$3.5 million to anyone they want exempt from estate tax. There is no estate tax in 2010, and then the allowable amount drops back to \$1 million in 2011. Expect that the estate tax will be continued into 2010 at current rates.

National VAT/Sales Tax

This has been proposed to help pay for health care. It would be “layered” on top of income taxation. This is common in Europe already.

Cap and Trade

If this bill passes the Senate, it would add a complex layer of taxes on all forms of energy production. This would be “hidden” as a direct tax, but result in higher prices for almost everything we buy.

Health Care

As noted above, a VAT has been proposed. Another possible measure to pay for a government health care program is taxation of employer-supplied health insurance (currently tax free to employees and deductible to employers). Others have proposed a “surcharge” on the “wealthy” as yet another tax to pay for health care.

State governments are also reeling from a lack of revenues in sales taxes and property taxes. Many states are adding or considering “wealth surcharges” to help with this. Those of us in Florida are exceedingly lucky to live without a state income tax.

Nationally, I suspect that most families will try to avoid a higher tax burden. Expect more “cash discounts” from vendors and perhaps even a reduction in productivity as a response. This has clearly been the response in Europe with its high income and VAT taxes.

As individual families, beginning some tax planning now might pay off significantly later on. Review your investment portfolio in order to determine if it can be made more “tax efficient.” Some sales might be worth making in the next year in order to avoid higher capital gains taxes in 2011. Retirees can alter their stream of income and investments in ways that minimize taxes. For example, you may have the alternatives of deriving income from after-tax versus pre-tax investment pools. Some families might benefit by making Roth IRA conversions in 2010 when the income limits towards doing so disappear.

Discuss these topics with your accountant and financial advisor. Don't be “lost in space” when it comes to taxes. ♦

Steven Podnos, MD, MBA, CFP® is a fee-only certified financial planner. He can be reached at www.WealthCare11.com