Wealth Management

HORAN Health. Wealth. Life.

HORAN Advisor Alert

An Impartial Analysis and Comparison: Romney vs. Obama

Tax Provision	Current Law (set to expire 12/31/12)	2013 Rates (Bush Tax Cuts Expire)	Obama Proposal	Romney Proposal
Individual Income Tax Rates	10% 15% 25% 28% 33% 35%	 15% 28% 31% 36% 39.6% (top rate applied to AGI above $200,000 single; $250,000 joint)	10% 15% 25% 28% 36% 39.6% (impose the so-called Buffet rule- a minimum 30% tax on those earning $1 million or more) *See Note at end of table	8% 12% 20% 22.4% 26.4% 28% (This future proposal represents a 20% reduction of the current six tax rates. For 2013, Romney proposes to maintain 2012 rates.)
Interest, Dividends, Capital Gains	Qualified dividends taxed at capital gains rates which are 0% for taxpayers in the 10% and 15% brackets and 15% for all others General interest income is taxed at ordinary tax rates Carried interest (the share of profits that private equity and hedge fund partners receive as compensation) is taxed at capital gain rates (15%)	Capital gains taxed at a maximum of 20% and dividends taxed as ordinary income.	Increase capital gains rate to maximum of 20% for individuals with income over $200,000. Dividends taxed as ordinary income for individuals with income over $200,000 ($250,000 joint) Carried interest taxed as ordinary income.	Eliminate taxes on investment income for taxpayers with AGI of less than $200,000 (joint); $100,000 (single) Retain 15% tax on dividends and capital gains for all other taxpayers No firm proposal on carried interest.
Federal Estate Tax	Estates worth up to $5.12 million are not taxed, larger estates taxed at a maximum of 35%. (Gift and generation skipping taxes (GST) at same exemption level and tax rate.)	Estates worth up to $1 million are not taxed, larger estates taxed at a maximum of 55%. (Gift and generation skipping taxes (GST) at same exemption level and tax rate.) (5% surcharge to wealth transfers between $10 and $17 million)	Estates worth up to $3.5 million are not taxed, larger estates taxed at a maximum of 45%. (Gift tax exclusion at $1 million)	Repeal estate tax permanently but preserve the gift tax rate at 35%.

Tax Provision	Current Law (set to expire 12/31/12)	2013 Rates (Bush Tax Cuts Expire)	Obama Proposal	Romney Proposal
Payroll Tax Holiday	Employee share of OASDI is reduced by 2%	Tax increases back to 6.2% from 4.2%.	Issue not addressed.	Issue not addressed.
Child Tax Credit	$1000 credit per child (phased out for incomes over $110,000)	Reduced to $500 per child	Make the current credit permanent.	Make the current credit permanent.
Marriage Penalty Relief	Increased standard deduction and wider 15% tax bracket for married couples.	Expires	Extend relief except for high income earners.	Extend relief.
American Opportunity Tax Credit	Up to $2500 credit per student on higher education expenses for 4 years	Hope Credit with lower benefits will return. Up to $1800 per student for 2 years.	Make AOTC permanent.	Not addressed
Higher Education Tuition Deduction	$4000 above-the-line deduction for higher education tuition	Has bipartisan support and will likely remain.	Extend deduction	Not addressed
Mortgage Interest Deduction	Interest on mortgage debt up to $1.1 million secured by a principal and second residence is an itemized deduction.	Return of phase-out rule for itemized deductions (and personal exemptions). This means the elimination of up to 80% of itemized deductions for mortgage interest, state and local taxes and charitable contributions for joint taxpayers with AGI in excess of $175,000.	Limit the amount of the itemized deduction for higher income individuals.	Eliminate the deduction on second homes for higher income taxpayers.
Charitable Deductions	Itemized Deduction up to 50% of AGI			Hinted about limiting the deduction for higher income individuals.
Municipal Bond Tax-Free Interest	Interest income on most municipal bonds is exempt from federal taxation.	Interest income on municipal bonds would remain exempt from federal taxation.	Limit the amount of the exclusion for higher income individuals.	Tax some portion based on income level.
Corporate Tax Rate	The highest corporate tax rate is 35%.	The highest corporate tax rate would remain 35%.	The proposed maximum rate is 28%, except for manufacturers which would face a 25% rate.	The proposed maximum rate is 25%
International Taxation	This is generally a worldwide system where all income, regardless of where earned, is taxed. Foreign tax credits reduce the impact of this double taxation.	International taxation would remain the same as the current system.	Institute a minimum tax on overseas profits.	Institute a territorial system where profits earned overseas are not taxed when they are brought back into the US (even when the rate was lower).

Tax Provision	Current Law (set to expire 12/31/12)	2013 Rates (Bush Tax Cuts Expire)	Obama Proposal	Romney Proposal
Research and Development Credits	20% credit for qualified R&D expenditures in excess of a base amount; 14% simplified credit available to eligible taxpayers.	R&D credit expired Dec. 31, 2011.	Make credit permanent and increase simplified credit from 14 to 17%.	Strengthen and make permanent an R&D credit.
Energy	A renewable electricity production tax credit for, in part, wind, solar, geothermal energy production. A variety of tax credits and deductions for oil and gas operations.	Production tax credit expires.	Make the tax credit for production of renewable electricity permanent and refundable. Eliminate tax preferences for fossil fuels.	Focus on traditional energy resources rather than green technologies that typically are too expensive to compete in the marketplace.

*Note: Investment income for those with AGI over $250,000 (joint) and $200,000 (single) are subject to an additional 3.8% tax under Obamacare (e.g., on interest, dividends, capital gains, net rental income, and royalties – but excluding tax-exempt municipal bond interest and withdrawals from qualified plans and IRAs). Also, the Medicare tax on earned income is increased by 0.9% on persons over the thresholds.

A web article from ABC News entitled Three Tax Realities: Romney v. Obama v. Fiscal Cliff sums up these tax proposals as follows:

Obama Wins:

- With Obama's plan, 95% of families will pay the same amount of income tax as they do now.
- For the 5% of Americans who earn over $241,900 per year, a substantial tax hike will occur. (Individuals earning between $200,000 and $500,000 will pay about $3,300 more in federal income taxes in 2013 versus 2012.)
- Two thirds of Obama's tax hikes fall solely on millionaires, who will pay higher rates on their income, capital gains and dividends.
- Obama would extend tax credits for the working poor, child care, and for families with children.
- Obama's plan has been criticized for failing to address the U.S. budget deficit. The Congressional budget office estimates Obama's plan to add $2.9 trillion to the federal debt over the next decade.

Romney Wins:

- With Romney's plan, most people's taxes would go down in the future, with tax rates cut by 20% across the board (to begin sometime after 2013). According to the Tax Policy Center:
  - The average $50,000 income earner would experience a $500 tax cut on average.
  - Those earning between $200,000 and $500,000 would save about $15,800.
  - 10% of tax filers earning less than $100,000 would have to pay roughly $900 more due to tax breaks for low income earners that Romney will let expire.
- Romney plans to make up for the lost tax revenue ($456 billion federal revenues per year) by eliminating tax loopholes and deductions. He has not been specific about which credits/deductions he will cut.
- Romney's plan has been criticized as to whether there are enough loopholes and deductions to fully pay for his plan without raising taxes for the middle class.

Fiscal Cliff (Congress Fails to Act):

- If the Bush tax cuts expire, American taxpayers will experience a $536 billion tax increase and spending cuts will eliminate $1.2 trillion largely from the Defense Department and Medicare.
  - Nearly 90% of taxpayers will see a tax increase on average of 4-6%. The average taxpayer's bill would increase $3,446.
  - The Congressional Budget Office predicts that if the Bush tax cuts are not reinstated, the country will enter into a recession with GDP growth slowing to an estimated .5%.
- Tax credits that largely benefit low and middle income workers, such as the child tax credit and deductions for the working poor, will also expire.

The current federal gift and estate tax exemption could expire through the sunset provision on December 31, 2012. The remaining months in 2012 are a great time to accelerate planning and maximize the current tax landscape.

Please feel free to contact Terence L. Horan, CLU, ChFC, President and CEO, Gregory L. Hoernschemeyer, CLU, Senior Vice President, or Michael D. Napier, CFP®, Director of Financial Planning, at 513.745.0707 to provide information you, your clients and their trustees need to know regarding this issue.

For Professional Use Only

Sincerely,

Terence L. Horan, CLU, ChFC
President and CEO, Registered Representative

Greg Hoernschemeyer, CLU
Senior Vice President, Registered Representative

Michael D. Napier, CFP®
Director of Financial Planning, Registered Representative