



Tax Uncertainty: Challenges and Solutions

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Expired and Expiring Tax Provisions

(Source: Joint Committee on Taxation - [JCX-112](#), January 06, 2012)

* Over 70 tax code provisions expired at the end of 2011, including:

- Increased AMT exemption amount
- Tax credit for research and experimentation expenses
- Exceptions under subpart F for active financing income
- Additional first-year depreciation for 100% of basis of qualified property
- 2.0% payroll tax cut extended (along with “Doc Fix” and unemployment insurance extension), but only through February 2012

* Over 40 tax code provisions will expire at the end of 2012, including:

- Reduction in individual income tax rates
- Reduced capital gain rates for individuals
- Dividends of individuals taxed at capital gain rates
- Increase of the standard deduction for married filers
- Estate, gift, and generation skipping transfer tax rate reductions and exemption amount increases

Pending Federal Tax Increases

* Tax Increases to Take Effect in 2013 (*Partial List*)

- Top marginal income tax rate increasing to 39.6% (from current 35%)
- Top dividend tax rate increasing to 39.6% (from current 15%)
- Top capital gains tax rate increasing to 20% (from current 15%)
- Reinstatement of “Pease” itemized deduction phase-out
- Additional 0.9% Medicare tax for higher income taxpayers (added to current employer + employee Medicare tax of 2.9%)
- Additional 3.8% Medicare tax on investment income of higher income taxpayers (including dividends, capital gains, annuities, royalties, rents, etc.)
- Reinstatement of estate tax with \$1 million exemption and 55% top rate

Pending Federal Tax Increases (continued)

* Tax Increases to Take Effect in 2013

(Partial list: includes effect of (1) higher top marginal ordinary income tax rate, (2) expiration of qualified dividend tax rate, (3) expiration of reduced long term capital gains tax rate, (4) imposition of higher Medicare tax)

Type of Income	Top Rate in 2012	Top Rate in 2013
Earned Income	37.9%	43.4%
Unearned Income (except Qualified Dividends and Long Term Capital Gains)	35%	43.4%
Qualified Dividends	15%	43.4%
Long Term Capital Gains	15%	23.8%

Legislative Issues

- * **Short Term**

- * Payroll Tax Extension
- * Repatriation
 - * House - H.R. 1834 (Brady-Matheson)
 - * Senate – S. 1671 (Hagan-McCain) and S. 1837 (Lee)
- * Expiring Tax Provisions (R&D tax credit, etc.)
- * Tax Offsets

- * **Longer Term**

- * Tax Reform
 - * Chairman Camp's Discussion Draft (25% rate, deemed repatriation, territorial system, & base erosion issues)

- * **Federal Legislation re: State Tax Issues**

- * H.R. 1439, Business Activity Tax Simplification Act of 2011
- * H.R. 1864, Mobile Workforce State Income Tax Fairness and Simplification Act
- * Quill Overrides - S. 1832, Marketplace Fairness Act, etc.

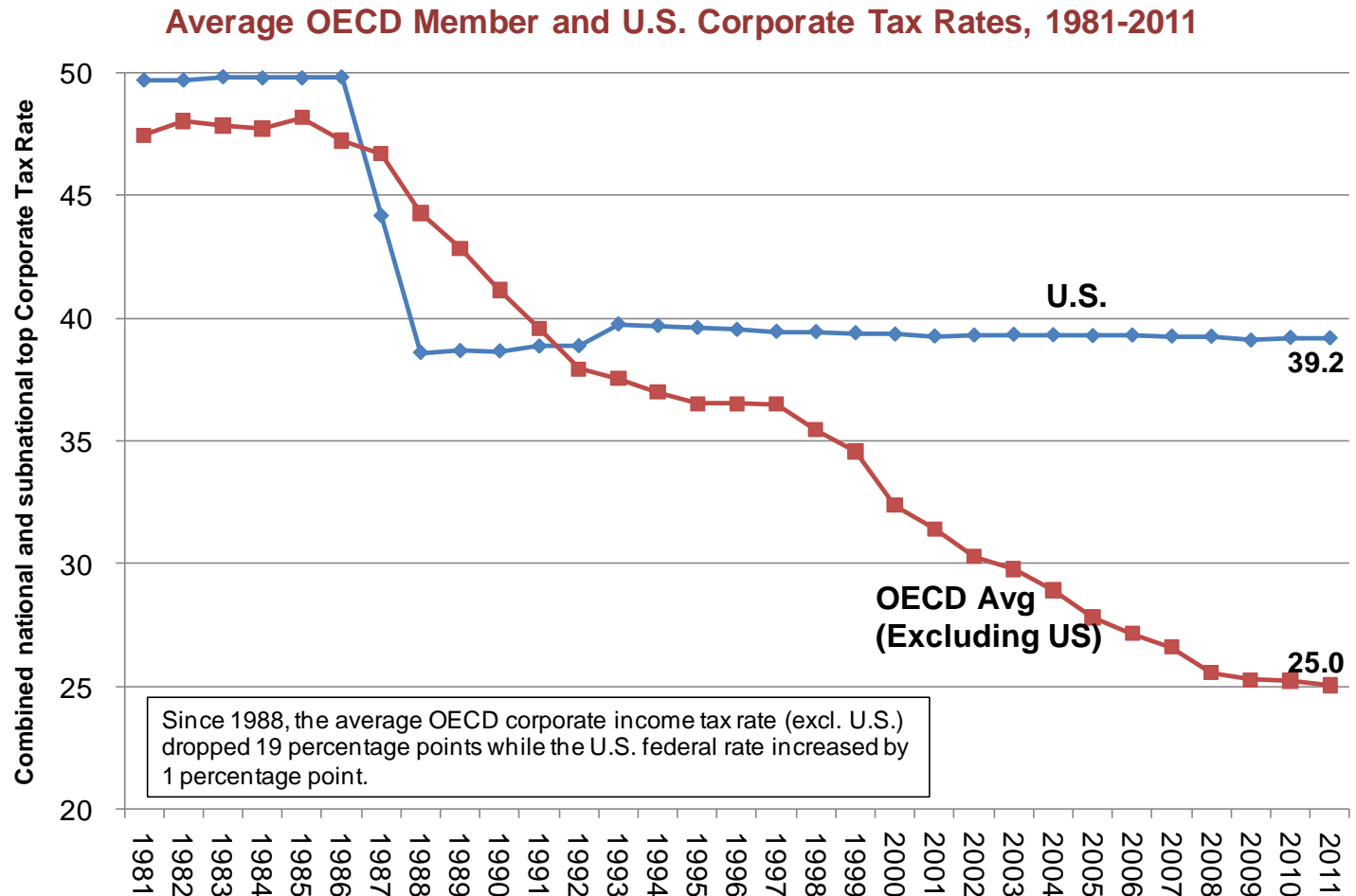
- * **Other Issues**

- * Administrative

U.S. Taxes Out of Sync with Competitor Nations (BRT doc)

Most developed nations have responded to increased international competition and to the increasing importance of cross-border investment by removing tax obstacles to international commerce.

- *The U.S. tax system has not kept pace with this need to adjust to new international realities.*



Source: OECD Tax Database, 2011.

U.S. rate is based on the 35-percent federal tax rate and average state taxes of 6.44 percent, which are deductible from federal taxes.

26 OECD Countries Use Territorial Tax Systems (BRT Doc)

OECD Home Country Method of Tax on Foreign-Source Dividends			
Method of Taxation	Countries		Dividend Exemption Percentage
<u>Territorial Tax Systems</u>	OECD Countries with Territorial Tax Systems		
Exempt foreign-source dividends from domestic income taxation through territorial tax system¹	Australia, Austria, Canada, Czech Republic, Denmark, Estonia, Finland, Hungary, Iceland, Luxembourg, Netherlands, New Zealand, Portugal, Slovak Republic, Spain, Sweden, Turkey, United Kingdom		100% exemption
	Norway		97% exemption
	Belgium, France, Germany, Italy, Japan, Slovenia, Switzerland		95% exemption
<u>Worldwide Tax Systems</u>	OECD Countries with Worldwide Tax Systems		
	Country	2011 Tax Rate²	
Worldwide system of income taxation with deferral and foreign tax credit	Chile	17.0%	0% exemption
	Greece	20.0%	0% exemption
	Ireland	12.5%	0% exemption
	Israel	24.0%	0% exemption
	Korea	24.2%	0% exemption
	Mexico	30.0%	0% exemption
	Poland	19.0%	0% exemption
	United States	39.2%	0% exemption

¹ In general, territorial tax treatment providing exemption of foreign-source dividends depends on qualifying criteria (e.g., minimum ownership level, minimum holding period the source country, income tax treaty status, and/or the source country tax rate).

² Refers to generally applicable tax rate, including surcharges, of combined central and sub-central government taxes.

Resources

- * [Coalition to Protect Interstate Commerce](#)
- * [Council On State Taxation \(COST\)](#)
- * [Joint Committee on Taxation](#)
- * [National Association of Manufacturers](#)
- * [National Foreign Trade Council](#)
- * [Protect America's Competitive Edge Coalition \(PACE\)](#)
- * [R&D Credit Coalition](#)
- * [Tax Foundation](#)
- * [U.S. Chamber of Commerce](#)
- * [WIN America Campaign](#)