Key Points of the President's 2015 Budget Proposal

April 2014

On March 3, President Obama announced his $3.9 trillion budget proposal for fiscal year 2015. Although the budget is more of a presidential "wish list" at this point, it includes initiatives that, if passed by Congress, could have a great impact on wealthy and middle-class Americans alike.

Social security claiming strategies

The proposed budget briefly mentions eliminating "aggressive Social Security-claiming strategies, which allow upper-income beneficiaries to manipulate the timing of collection of Social Security benefits in order to maximize delayed retirement credits." Many industry professionals are interpreting this to mean the end of the file-and-suspend strategy, which allows a social security claimant to file for benefits and immediately suspend them. The claimant's spouse can then begin collecting his or her spousal benefit, while both the claimant and the spouse allow their retirement benefits to grow until age 70 using delayed retirement credits.

It's important to note, however, that the language in the proposal is vague, and it's unclear whether the ultimate target is the file-and-suspend strategy. Additionally, there is some question about how this change would take place-whether through an internal Social Security Administration rule change or an act of Congress. If the latter, it could take a great deal of time to implement, if it passes at all.

Tax cuts for middle-class Americans

The President's budget proposes several tax incentives for middle-class workers, including doubling the maximum value of the Earned Income Tax Credit for workers without children, families with more than two children, and married couples, as well as expanding the child and dependent care credit.

Student loans and grants

The President also proposed student loan forgiveness for qualified taxpayers who borrow through federal programs. Any forgiven loans would be excluded from
gross income. Additionally, Pell Grants would be excluded from gross income, provided that the funds are spent according to the program rules.

Loss of tax benefits for high-income individuals

As in past years, the President renewed proposals that would eliminate some tax benefits for wealthy Americans. Specifically, for individuals in the 33-percent tax bracket and higher, and those subject to the alternative minimum tax, the value of certain exclusions and deductions would be reduced to 28 percent. Additionally, the budget reintroduced the "Buffett rule," which would require taxpayers with an adjusted gross income above $1 million to pay a tax rate of at least 30 percent on their income, excluding any charitable giving. Finally, the President proposed extending the temporary exclusion from income for forgiven home mortgage debt to January 1, 2017.

Changes to RMD rules

Another proposed change would waive the required minimum distribution (RMD) rule for individuals whose aggregate retirement plan and IRA assets do not exceed $100,000. Additionally, nonspouse beneficiaries of retirement assets would be required to fully deplete inherited assets within five years. Finally, the President proposed instituting RMD requirements for Roth accounts.

Retirement account changes

Along with the President's proposal to institute RMD requirements for Roth accounts, contributions to those accounts would no longer be allowed after age 70½. Additionally, nonspouse beneficiaries of retirement accounts would be allowed to move funds into an inherited IRA using a 60-day rollover, as opposed to the current direct-transfer requirement. For taxpayers who accumulate retirement benefits over a certain threshold, further contributions and accruals would be prohibited. Finally, small businesses that do not offer qualified retirement plans would be required to offer automatic enrollment in an IRA for their employees.

Changes to estate and gift taxation

The budget proposal seeks to increase the maximum unified estate and gift tax rate from 40 percent to 45 percent and to reduce the exclusion amount from $5 million to $3.5 million for estate and generation-skipping transfer taxes, and $1 million for gift taxes. Additionally, the President proposed redefining the meaning of a gift transfer (by eliminating the present interest requirement) for purposes of the annual gift tax exclusion. The annual exclusion would be modified from $14,000 per donee to $50,000 per donor.

The President also proposed a minimum 10-year term for grantor retained annuity trusts; a 90-year limit on the duration of the generation-skipping transfer tax exemption; modifying the generation-skipping transfer tax treatment for health and education exclusion trusts; and coordinating certain income and transfer tax rules for grantor trusts.

Higher tax rate on investment manager income
As in past years, the President's budget proposes taxing the carried interest portion of fund manager compensation as ordinary income instead of as a capital gain. This would increase the tax rate on that compensation from 20 percent to as much as 39.6 percent.

My staff and I deeply appreciate the continuing opportunity to work with you. Please let me know if you have any questions or requests. Thank you.

Sincerely,

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