



Crisis and Change:

**The Impact of Obama's New Policies
on Tax and Investment Planning**

Presented by

Gary M. Silverman, CFA

***Chief Investment Officer &
Wealth Management Practice Leader***

Blue Prairie Group

February 19, 2009



The current situation

The economy is facing extreme challenges

- Deleveraging of balance sheets
- Declining business output
- Low consumer spending and confidence

There are several negatively self-reinforcing factors

- Lack of credit availability
- Capital market turmoil
- Housing market instability

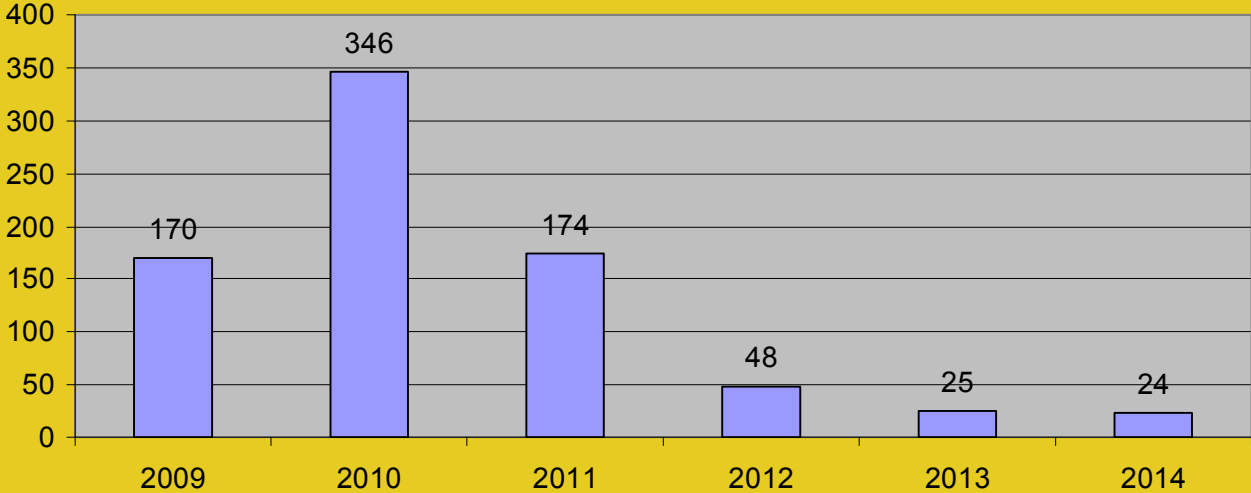


The Obama stimulus plan

1. Tax cuts and spending
2. Aide to states and local governments
3. Treasury actions to free up bank balance sheets
4. Help for homeowners



Spending under the Obama Plan (\$B)





Federal reserve action

1. Fed Funds target 0 – 0.25%
2. Leveraging its balance sheet to prop up credit markets
3. The treasury is providing the Fed \$100m (levered 10x) to buy credit card loans, commercial real estate securities, and student loans



Diversification did not work last year

1. US equity markets: **Down 37%**
2. International equity markets: **Down 43%**
3. Emerging Markets: **Down 53%**
4. Bonds: **Down 8%**
5. Real estate: **Down 37%**
6. Commodities: **Down 36%**
7. Hedge Funds: **Down 19%**
8. US Treasuries: **Up 18%**



Credit markets are the most attractive

- High quality corporate debt
- High quality municipal debt
- A broad diversification of issues is key

“There are some really extraordinary opportunities in the credit world. Everything from bank loans to investment grade bonds to less-than-investment grade bonds, is priced at really extraordinarily cheap levels.”

- David Swensen



Even riskier credit markets show opportunity

1. Floating rate/Bank loan funds
2. High yield debt



Treasuries are no longer as safe as a “safe haven”

1. Exit US Treasury positions
2. Consider longer dated TIPS
3. Gold



Too early for equities

1. The US will likely lead a worldwide recovery
2. Emerging markets are still attractive from a long-term fundamental perspective



(Investing) rules to live by

1. Be patient – build and exit positions over time
2. Manage risk, not return (returns should follow)
3. Be cautious, not afraid



Contact:

Gary M. Silverman

gary@blueprairiegroup.com

direct: 312-376-8439

www.blueprairiegroup.com



Thank you!

Blue Prairie Group

*Investment and Human Resource consulting
with a different outlook*

Taxing Considerations under the Obama Administration

Discussion Questions

1. What Did Obama Promise?
2. What Will Obama Deliver?
3. How Does Tax Planning Change under Obama?
4. What Will Happen to the Estate Tax?

1. What Did Obama Promise?

Return to Clinton era taxes with populist incentives while avoiding the political trap of a tax increase.

2. What Will Obama Deliver?

Short Term:

Bush tax regime with populist
stimulus incentives.

2. What Will Obama Deliver?

American Recovery and Reinvestment Act of 2009

- Part of \$800b Stimulus Package
- \$280b tax relief concentrated in two years
- More than 50 provisions
- Most provisions retroactive to Jan 1, 2009
- Maintains general tax rate / structure

2. What Will Obama Deliver?

2009 Tax Act – Individuals

- Making Work Pay Credit (2009 & 2010)
 - Credit up to 6.2% of earned income
 - Up to \$400 for Single and \$800 for MFJ
 - 2% phase-out at \$75,000 / \$150,000

2. What Will Obama Deliver?

2009 Tax Act – Individuals cont'd

- First-Time Homebuyer Tax Credit
 - \$8,000 credit – no repayment required
 - Purchases Jan 1 thru Nov 30, 2009
 - Phase-out at begins at \$75k / \$150k AGI

2. What Will Obama Deliver?

2009 Tax Act – Individuals cont'd

- New Car: State Sales Tax Deduction
 - \$49,500 purchase price cap
 - Phase-out begins at \$125k / \$250k AGI
 - Effective only upon signing

2. What Will Obama Deliver?

2009 Tax Act – Misc Credits

- American Opportunity Credit (College)
 - \$2,500 credit, 40% refundable
 - phase-out begins at \$80k / \$160k AGI
- Earned Income Credit - increased

2. What Will Obama Deliver?

2009 Tax Act – Misc Other

- Unemployment comp exclusion (\$2,400)
- Increased Transit Benefit fringe (\$230/mo)
- AMT Patch (consistent with 2008)

2. What Will Obama Deliver?

2009 Tax Act – Business

- Bonus Depreciation extended thru 2009
 - 50% first year deduction on new property
 - Auto limits \$10,960 vs. \$2,960
- Sec. 179 Expensing extended for 2009
 - \$250k expense / \$800k threshold

2. What Will Obama Deliver?

2009 Tax Act – Business cont'd

- 2008 NOL carried back 5 years (small co)
- Defer certain Cancellation of Debt Income
- Qualified Small Business Stock (75% excl)
- Small Business ES reduced (90% of 2008)
- COBRA Benefits
 - Termination Sept 1, 2008 to Jan 1, 2010
 - 65% credit for employer paid COBRA

2. What Will Obama Deliver?

Energy Incentives

- Residential Energy Property Credit
 - 30% credit, \$1,500 limit
 - certain energy efficiency improvements
- \$2,500 credit for Plug-in Electric Vehicles
- Others credits

2. What Will Obama Deliver

2009 Tax Rates

- Ordinary Income: 35%
- Capital Gains: 15%
- Qualified Dividends: 15%
- Estate Tax: \$3.5m Exclusion, 45% rate.

2. What Will Obama Deliver

Mid-term Expectations

- Dec 31, 2010 Sunset
- Generally higher tax rates
- Increasing FICA limit and rates
- Estate Tax: \$3.5m Exclusion, 45% rate.

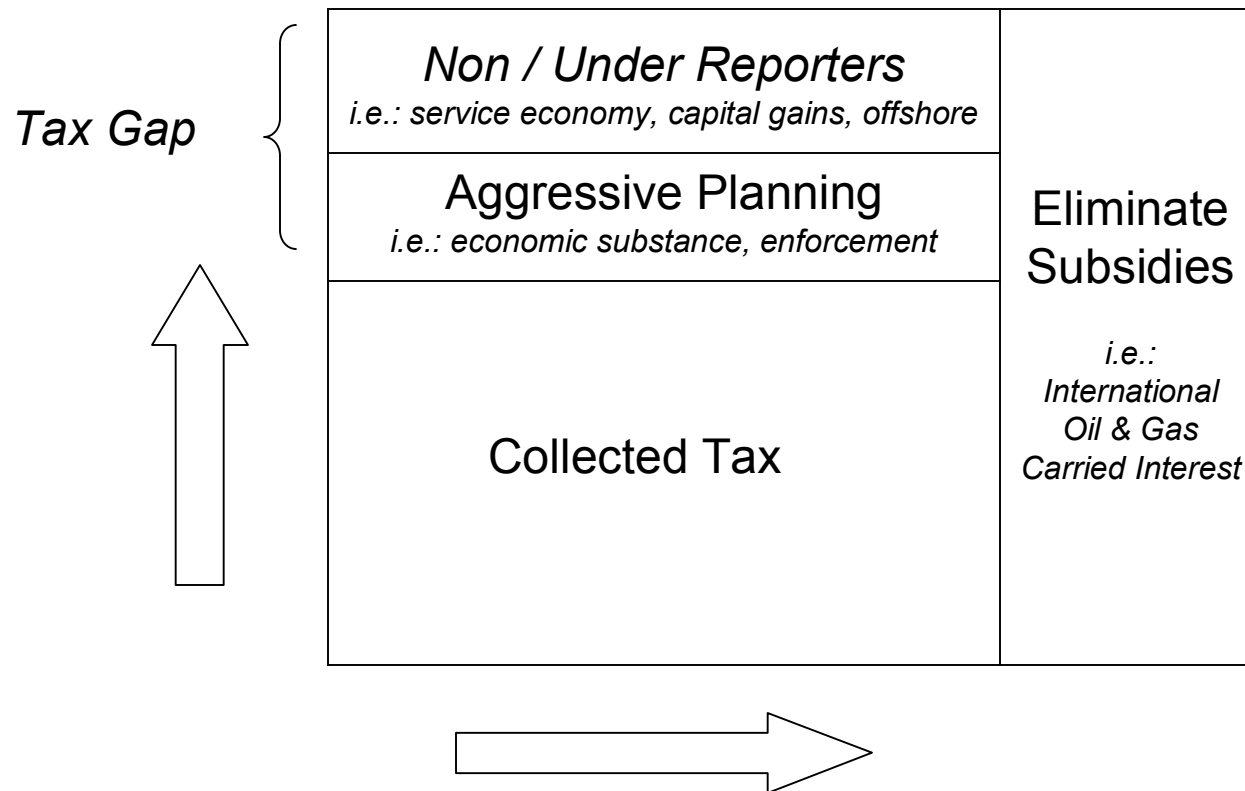
2. What Will Obama Deliver

Expected 2011 Tax Rates

- Ordinary Income: 36% & 39.6% (vs. 35%)
- Capital Gains: 20% (vs. 15%)
- Qualified Dividends: 20% (vs. 15%)
- Estate Tax: same as 2009

2. What Will Obama Deliver

Increased Tax Base?



3. How Does Tax Planning Change Under Obama?

Tax planning fundamentals stay the same; however, expected higher tax rates will change the analysis slightly.

3. Tax Planning Under Obama

Income Deferral Under Increasing Tax Rates

- Avoid short term income deferral
- Prefer “Roth” to Traditional IRA / 401(k)
- Case for “taxable” alternative?
- Accelerate LTCG only in the short term

3. Tax Planning Under Obama

Ex: 2010 Roth Conversion

- Income limitations removed in 2010
- Pay tax on conversion
- Same logic applies to loss or low income year
- Consider funding non-deductible IRA

3. Tax Planning Under Obama

Shift Income

- Employ minor children
- Utilize child's kiddie exemption
 - \$950 not taxed
 - \$950 taxed at child's rates

3. Tax Planning Under Obama

Reclassify Income

- Seek long term capital gains vs. ordinary
- Qualified dividends vs. ordinary
- Avoid self-employment tax

4. What About the Estate Tax?

2009 Law

- Estate Tax: \$3.5m Exclusion, 45% rate.
- \$1m Gift Tax Exemption
- \$13,000 Annual Exclusion
- \$2m Illinois Estate Exclusions

4. What About the Estate Tax?

2010 Expectations

- No 2010 Repeal
- \$3.5m exemption, 45% tax
- \$1m Gift Tax Exemption
- \$13,000 Annual Exclusion
- H.R. 436 – Disallow FLP Discounts
- \$2m Illinois Estate Exclusions

4. What About the Estate Tax?

Illinois Estate Tax - Planning

- \$2m IL exemption vs. \$3.5m Federal
 - Review funding formula
 - Dilemma when first spouse dies
 - Use marital disclaimer
- Make lifetime gifts

4. What About the Estate Tax?

Estate Planning Under New Regime

- Avoid unnecessary gift tax
- Utilize annual exclusions (\$13,000)
- Grantor Retained Annuity Trusts (GRATs)

Questions

Wesley Naviaux
NDH Group, Ltd.
53 W Jackson Blvd., Suite 718
Chicago, IL 60604
wes@ndhcpa.com
www.ndhcpa.com
(312) 461-0876 x223
(312) 461-0879