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Ahhh, sweet, delicious summertime in Oregon! Every March I forget why I live here; by July, I remember. Hope you're enjoying the long days and cool evenings as much as I am.

### **GOING, GOING GONE?**

The clock is ticking. At midnight on December 31, many of the tax cuts enacted during the first George W. Bush administration will expire. Congress is debating now whether to extend some or all of these measures, and grappling with the complexity of how any action, or lack thereof, will affect the economic recovery and the deficit. Let's take a look at some of the more important tax items that are scheduled to change.

◆ **Individual Tax Rates:** The current brackets run from 10 to 35 percent. . .rates will go to 15 to 39.6 percent without Congressional action. . .joint taxpayers would face the highest tax rates at about \$380,000 of taxable income.

◆ **Capital Gains:** Long term capital gains (profits on the sale of investments held over one year) are currently taxed at a maximum rate of 15 percent. . .low-income taxpayers actually pay zero tax on capital gains. . .qualified dividends are taxed at preferential capital gain rates. . .absent new law, the capital gain rates move to 10 and 20 percent, and corporate dividends will again be taxed at ordinary income tax rates.

◆ **Other Changes:** The child tax credit will be reduced in many cases from \$1,000 to \$500 while others will lose the credit entirely. . .the estate tax is scheduled to return in 2011, imposed on estates over \$1 million. . .also making a return appearance would be the "marriage penalty," situations in which a married couple pays more in tax than two single individuals with the same amount of taxable income would.

◆ **So What Will They Do?** Expect another round of political kick the can. . .with a national deficit approaching \$14 trillion, some lawmakers will want to allow at least some of the beneficial provisions to die. . .many more, however, will be wary of being seen as wanting to raise taxes in an election year. . .I'm betting on an Obama-led compromise with tax cuts continued for the lower and middle classes, while the "wealthy" will see their taxes increase. Stay tuned.

### **Social Security: Sacred Cow or Ripe for Sacrifice?**

For the first time in recent years, Social Security in 2010 will pay out more than it takes in, according to the Congressional Budget Office. Uh-oh.

◆ **Basics:** Social Security pays benefits for retirement, disability and to survivors of deceased workers. . .retirement

benefits may be claimed as early as age 62. . .since 1937, Social Security has paid out over \$10 trillion

♦ **Funding:** Social Security is underwritten primarily by employment taxes levied under the Federal Insurance Contributions Act (FICA). . .most employees pay 6.2 percent of their wages to the program; employers pay an identical amount. . .the tax is eliminated above \$106,800. . .self-employed individuals are similarly taxed.

♦ **So What's the Problem?** Graybeards like me know that our population is aging—the number of Social Security benefit recipients each year is increasing faster than the number of workers paying in. . .so “fixing” Social Security will likely boil down to trimming benefits and/or raising taxes. . .this is yet another political nightmare (the “third rail” of US politics) that defies easy solutions. . .and the Social Security problem is probably much easier to solve than Medicare, which is facing even more serious shortfalls.

### Other Tax Matters

In other breaking tax news. . .

♦ **New Filing Status for Same Sex Couples?** The Internal Revenue Service does not allow same sex partners to file joint returns. . .states differ in their approaches; Oregon, for example, treats registered domestic partners as married for income tax purposes. . .a federal district court in Massachusetts recently held that part of the federal Defense of Marriage Act violates constitutional protections. . .the decision may lead to a test of whether or not the IRS can prevent same sex couples from filing joint federal income tax returns.

♦ **Who Can Prepare a Federal Income Tax Return for \$\$?** Until now, just about anyone. . .but the IRS will soon require paid return preparers to use an identification number. . .ultimately, the IRS will monitor the program to try to insure the competency of paid preparers through examinations, continuing education requirements, etc. . .CPAs will be required to obtain a number (we've had one for years) but will be exempt from IRS testing and monitoring. . .the efforts are aimed primarily at reducing the number of fraudulently prepared income tax returns and refund claims. . .Oregon has long required residents other than attorneys or fiduciaries to obtain a license or registration in order to prepare tax returns in Oregon for a fee.

The cast of characters here at Larry A. Jaffe, P.C. is changing. After more than eight years with our firm, office manager Dawn Bryson is moving on. I will miss her dearly, as she was generally the first person I turned to when I needed help running a CPA firm.

Stepping into Dawn's shoes as the new office manager at our firm is Tamara Nelson-Harrel. Tam has worked with several of our clients in the past as outside bookkeeper and/or human resources manager and we're all very excited that she's joined our team.

Finally, a big shout-out to our own Terri Messler-Cole who recently completed her certified public accountant examinations and becomes the first firm employee to attain her professional license during her tenure here. Way to go MC!