

Obama stumps for tax plan -- but tax planning could stump advisers

By Mark Schoeff Jr.

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Investment advisers and their clients may want to wait before crafting financial strategies to address the tax-relief and spending proposals outlined today by President Barack Obama.

The tense political atmosphere pervading Capitol Hill in the weeks leading up to the November election almost ensures that Congress will not act on the plans this fall — and may not act even during a lame-duck session after the vote.

“I don't think this is about legislating,” said Douglas Holtz-Eakin, president of the American Action Forum and former economic policy director for Sen. John McCain's presidential campaign. “This is about political posturing prior to the mid-terms.”

Possibly. But one of the centerpieces of the president's plan is similar to what Mr. McCain called for during the 2008 presidential campaign: allowing companies to take an upfront 100% tax deduction for capital investments. The tax break would apply to capital outlays made in 2011.


“This will help small businesses upgrade their plants and equipment, and will encourage large corporations to get off the sidelines and start putting their profits to work in places like Cleveland and Toledo and Dayton,” Mr. Obama said in a speech near Cleveland.

The White House estimates that the change would result in \$200 billion in corporate tax cuts. Those cuts, in theory, would convince companies to accelerate spending plans that have languished during the recession and tepid recovery. Corporations are sitting on nearly \$2 trillion in cash.

“This unprecedented step would be the largest temporary investment incentive in American history,” a White House fact sheet states.

This is potentially good news for advisers with clients who run their own companies,

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particularly smaller businesses. One investment adviser, however, doubts that Mr. Obama's proposal will have a dramatic impact on such businesses. Many of Nick Hodges' clients in that sector have operations that generate between \$3 million and \$10 million in revenue annually and make capital purchases of about \$100,000 each year.

Mr. Hodges, president of NCH Wealth Advisers in Fullerton, Calif., noted that many companies, depending on their size, can already expense 100% of plant and equipment acquisitions below \$400,000 in the year they're made.

"For the bulk of most small businesses, this will be a non-event," said Mr. Hodges, who is based in Mississippi.

If the event happens at all, that is.

David Tittsworth, executive director of the Investment Adviser Association and a former staffer on two House committees, called the chances of congressional action "extremely remote."

"I would be highly skeptical that something like this could pass," Mr. Tittsworth said. "The opportunity to do anything cooperatively between Republicans and Democrats is zero."

Other elements of Mr. Obama's plan include spending on roads, railways and airports as well as extending and making permanent a research and development tax credit.

After repeatedly running into legislative roadblocks thrown up by Republicans and conservative Democrats over the past 20 months, it appears that the Mr. Obama is trying to appeal to the center and the right.

"This is a symptom of an administration that is desperately looking for ways to do something about the short-term problems we face economically, something that will be acceptable to Republicans," said Isabel Sawhill, a senior fellow in economic studies at the Brookings Institution in Washington. "They've had to come up with some proposals that are very business-oriented. They aren't necessarily the best way to stimulate the economy in the short run, but they're not terrible proposals otherwise."

The Obama administration has a tough slog ahead in garnering Republican support, primarily because of GOP worries about how the president will finance his plan. The White House estimates the capital expense deduction will cost \$30 billion over 10 years.

"Business incentives sound fine, but will they be paid for in a way that hurts job creation?" Sen. Charles Grassley of Iowa, the ranking Republican on the Senate Finance Committee, said in a statement. "If the offsets for this new package are other tax increases, then it's a non-starter."

Republicans and Democrats are bracing for a battle this fall over renewing Bush administration tax cuts that are set to expire on Dec. 31. If Congress does not act, capital gains and dividend taxes, as well as marginal rates, will revert to levels from the late 1990s.

House Republican Leader John Boehner of Ohio proposed a two-year extension of Bush tax

cuts during an interview today on ABC-TV's "Good Morning America."

"This would help ease the uncertainty employers and entrepreneurs are facing so that they can get back to creating jobs," Mr. Boehner's office said in a statement released afterward.

Mr. Obama favors extending tax cuts for individuals making less than \$200,000 and families making less than \$250,000. He opposes renewing the cuts for high earners because he says it would increase the deficit by \$700 billion over the next 10 years.

Republicans are seeking to renew all the Bush tax cuts. Most congressional Democrats side with Mr. Obama in eliminating breaks for the wealthy.

"I believe we ought to make the tax cuts for the middle class permanent," Mr. Obama said. "These families are the ones who saw their wages and incomes flatline over the last decade — and they deserve a break. And because they are more likely to spend on basic necessities, this will strengthen the economy as a whole."

An adviser who has a client base that is mostly above the \$250,000 threshold said that letting the top tax rate climb back to 39.6% from 35% might not change his clients' lifestyles. It will crimp their investment income, however.

"They will have less money to invest in stocks and bonds and to put away for their children's college educations and their own retirement," said Peter McAleer, president of McAleer Wealth Management Group in New Canaan, Conn.

Mr. Hodges wants the Bush tax cuts renewed for all income levels.

"It's far more important to extend tax cuts for everyone and push the debate on wealth distribution into the future," Mr. Hodges said. "We need to get the economy moving. We need to grow the pie."

Not surprisingly, advisers say clients' political leanings are influencing whether they takes steps sooner or later to prepare for higher rates. Such steps include maximizing pre-tax contributions to 401(k) plans.

"People who agree with the president are waiting," Mr. McAleer said. "They take more of a casual, sit-back approach. Customers on the other side of the aisle are being more aggressive, expecting the increase in their taxes and are taking as huge a deduction now as they can."

Mr. Hodges said that his clients — many of whom have been "psychologically" devastated by the recession are warily watching what's happening in Washington, frozen by the policy uncertainty.

"A lot of folks are sitting in cash," Mr. Hodges said. "Until they get clarity about what their future holds, they're going to hold onto that cash."



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