

Budget Control Act of 2011 – What’s Next?

Last year, businesses and individuals found themselves having to wait until the last minute to find out what changes would occur when the 2010 Tax Relief Act was finally signed into law. It created a guessing game for year-end tax planning which is likely to be repeated this year with the August 2, 2011 signing of the “Budget Control Act of 2011”.

The second round of deficit reduction mandated by this new law requires the newly established Joint Select Committee on Deficit Reduction (JSC) to reduce the national deficit by an additional \$1.5 trillion over fiscal years 2012 through 2021. After finding such savings, the duties of the JSC are to “provide recommendations and legislative language that will significantly improve the short-term and long-term fiscal imbalance of the Federal Government.”

The timeline for achieving these goals is rather short – the 12 members of the committee must be appointed by August 16, 2011 and the JSC must approve a report and have Congress vote on it no later than December 23, 2011, with no amendments to be considered. Because of the time crunch, experts believe the JSC may look to past proposals for a solution. Some of the possibilities include:

- Businesses may have to give up costly tax breaks, such as accelerated depreciation, the domestic production activities deduction, or the election to use the last-in, first-out (LIFO) inventory accounting method.
- A new round of loophole closers, such as the crackdown on “carried interest”.
- Individuals might find cutbacks in key tax breaks, such as the mortgage interest deduction, in exchange for flattened and lowered tax rates.

The JSC will also need to address the post-2012 expiration of the Bush-era income tax cuts (including the current rate schedules and low tax rates for long-term capital gains), the expiration of the Bush-era rules for estate and gift taxation, and the transfer tax rules in the 2010 Tax Relief Act effective for estates of decedents dying, gifts made, or generation-skipping transfers made after December 31, 2012.

However, even if the JSC approves recommendations which include comprehensive tax reform those changes will likely not go into effect until 2013. This means Congress will still need to address the tax breaks scheduled to expire at the end of this year (such as the research credit, the work opportunity tax credit, and the deduction for qualified tuition and related expenses), as well as the higher alternative minimum tax (AMT) exemptions and ability to offset AMT with personal credits which will both also expire at the end of 2011.

This leaves a lot of questions still unanswered for taxpayers. You can count on Stortz & Associates to keep you up-to-date on all the latest developments with this new legislation. If you have any questions or concerns, please call our office.