

More bad news on how taxes will affect you

Last week I presented several provisions of the RRA of 1990, details of which were supplied by Deloitte & Touche. This column provides additional provisions, also supplied by Deloitte & Touche, which I hope would be of interest to you.

EXCISE TAXES

10 Percent Luxury Excise Tax — A 10 percent excise tax is imposed on the portion of the retail price of the following items that exceeds the following thresholds: automobiles — \$30,000; boats and yachts — \$100,000; aircraft — \$250,000; jewelry — \$10,000; and furs — \$10,000.

The tax is applicable only to the first retail sale of newly manufactured items. Additionally, the provision contains special rules on anti-abuse, the leasing of boats and aircraft, an exemption for sales to the Federal or state or local governments, and the exportation and the importation of affected goods.

Effective Date — Applies to sales after 1990 and before 2000. However, an exception is made for binding contracts that were in effect on Sept. 30, 1990.

Gas Guzzler Excise Tax — The prior law gas guzzler tax rates are doubled. Thus, the tax begins at \$1,000 for automobile models with mileage between 21.5 and 22.5 miles per gallon and increases to \$7,700 for automobile models with fuel economy ratings of less than 12.5 miles per gallon. This provision applies to passenger automobiles with an unloaded gross vehicle weight of less than 6,000 pounds. However, all limousines are subject to this tax regardless of their weight. The special rules permitting Treasury to set the rate of tax for small manufacturers are repealed.

Effective Date — This provision is effective after 1990.

Highway and Motorboat Fuels Excise Taxes — The highway and motorboat fuels taxes are increased by 5 cents per gallon. A 2.5 cents per gallon tax is imposed on fuels used in rail transportation. The excise tax exemption for gasoline is reduced to 5.4 cents per gallon. The exemption for partially exempt ethanol and methanol fuels remains at 50 percent of the applicable rate. In addition, rules relating to the collection of taxes are tightened.

Effective Dates — The fuels tax increase is effective on Dec. 1, 1990, with applicable floor stocks taxes imposed on that date. The collection of tax provision is effective July 1, 1991.

Excise Tax on Beer, Wine, and Distilled Spirits — The Act doubles the excise tax on beer from \$9 a barrel to \$18 a barrel, increases the excise tax on distilled spirits by \$1 per proof gallon, and increases the excise tax on still wines and artificially carbonated wine by .50 cents per wine gallon.

An exemption is made for small domestic producers of beer and wine. Under the exception, small producers will, generally, pay the same rate of tax as under the old law.

Effective Date — The rate increases are effective Jan. 1, 1991, including a tax on floor stocks.

Tobacco Excise Taxes — The excise on all tobacco products is increased by 25 percent on Jan. 1, 1991, with an additional increase of the same dollar amount Jan. 1, 1993.



finances and you

Sid Mittra

For example, the tax on a pack of cigarettes will increase by four cents in 1991 and by another four cents in 1993. Floor stocks of cigarettes will be subject to each tax increase.

Ozone-Depleting Chemicals Excise Tax — The list of ozone-depleting chemicals subject to the excise tax is more than doubled. However, the excise tax for the newly taxed chemicals is lower (30 cents) for the tax year 1992.

Airport and Airway Trust Fund Taxes — The tax on passenger tickets and air freight is increased by 25 percent. For example, the ticket tax is increased from 8 percent to 10 percent. In addition, the Airport and Airway Trust Fund excise taxes are extended for five years through 1995.

Effective Date — The airport and airway excise taxes generally are effective for amounts paid after Nov. 30, 1990.

Harbor Maintenance Excise Tax — The harbor maintenance tax is increased from 0.04 percent to 0.125 percent of the value of commercial cargo or the passenger fare.

Effective Date — Jan. 1, 1991.

Leaking Underground Storage Tank Trust Fund Tax — The Leaking Underground Storage Tank Trust

Fund tax of 0.1 cent per gallon of fuel is reimposed and extended for five years through 1995 with no Trust Fund revenue ceiling.

Effective Date — Dec. 1, 1990.

Extension of Telephone Excise Tax — The 3 percent excise tax permanently extended.

Effective Date — Jan. 1, 1991.

Extension of Superfund Taxes and Trust Fund — The Superfund taxes and related Trust Fund are extended for four years. In addition, the cap on tax revenue collected through Superfund taxes is increased from \$6.65 billion to \$11.97 billion.

Effective Date — Jan. 1, 1992 through Dec. 31, 1995.

OTHER PROVISIONS:

Estate Tax Freeze Rules — Section 2036(c) is repealed retroactively. Thus, an interest in property (including corporate stock and partnership interests) carrying a disproportionate share of potential appreciation in an enterprise that is transferred to a family member of the transferor will not be brought back into the gross estate of the transferor. However, the Act lightens the rules for valuing the transferred and the retained interests in corporations and partnerships that

are not publicly traded.

Effective Date — This provision applies to transfers made and agreements entered into (or substantially modified) after Oct. 8, 1990. There is a true grandfather rule, however. Failures to exercise conversions, to pay dividends, or exercise other rights under arrangements entered into before the effective date will not be treated as transfers subject to the new rules.

Modifications of Earned Income Tax Credit — The rate of the earned income tax credit (EIC) will gradually increase from 14 percent to 20 percent and an additional amount to credit is allowed for families with two or more children. The EIC is a percentage of the taxpayer's earned income up to an income amount of \$6,810. The EIC is then phased out at a set percentage of income over \$10,736. The earned income maximum and the phase-out are adjusted annually for inflation. Additionally, the credit is increased if any of the children are under the age of 1 year

at the end of the taxable year. An additional credit is also available for qualified health insurance expenses.

Effective Date — Effective for taxable years beginning after 1990.

Medical Expenses — "Unnecessary" cosmetic surgery is no longer a deductible medical expense. Unnecessary cosmetic surgery is defined as surgery designed to correct a deformity that is not a congenital abnormality or one caused by a personal injury or disease.

Effective Date — Effective for tax years beginning after 1990.

Extended Statute of Limitations for Collection of Taxes — The statute of limitations for collecting taxes after an assessment has been made is extended from six years to 10 years.

Effective Date — In general, the new statute of limitations period applies to taxes after the date of enactment.

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