

## Change in America - The Road Ahead

The American elections are over. Barack Obama has created history by becoming the first mixed race African American to become the President Elect. The change of guard in White House will bring the Democrats back in charge of the United States. With a comfortable majority in the Senate and the House, the Democrats and Obama have the requisite political power to pursue their policies and vision. What does this change mean for Indian multinationals? KNAV takes this opportunity to showcase the trade policies, the tax proposals and the Obama doctrine on the global credit crisis.

### Obama Trade Policy

#### Amend NAFTA and fight for FAIR Trade

Obama originally proposed renegotiating the North American Free Trade Agreement (NAFTA) to include stronger labor and environmental provisions but he has since softened his position. He has also expressed opposition to free trade agreements with Colombia, for similar reasons, and with South Korea because of the failure to remove regulatory barriers for US exports. He has promised to be much more vigorous in making sure China and other countries honor their trade commitments. He also wants to pressure the World Trade Organization to enforce current agreements and stop unfair subsidies.

*Barack Obama has proposed that he would stop providing tax breaks for companies that were shipping jobs overseas through outsourcing activities and instead give tax breaks to companies that invested in the United States.*

Obama's statement against outsourcing of jobs by US companies rang alarm bells among the corporate sector and even countries like India which benefits from these outsourcing of jobs. However, he later stated that his proposed policies would make the US economy strong and competitive again by expanding opportunity outward rather than clamping down on outsourcing to countries like India and China.

## **Obama Tax Policy**

### **Proposed New Tax Cuts**

- Refundable "Making Work Pay Credit" of 6.2 percent of earnings up to maximum earnings of \$8,100 per worker
- Refundable "Universal Mortgage Credit" of 10 percent of mortgage interest for no itemizers up to \$800
- Make Research and Development and renewable energy production tax credit (wind, solar) permanent
- Provide a refundable \$3,000 per employee credit for increases in employment for firms with growing employment
- Eliminate the taxation of unemployment insurance

### **Capital Gains**

- Increase maximum capital gains rate to 20 percent for those earning more than \$200,000 (\$250,000 for married couples)
- Require information reporting of basis for gains

### **Estate Tax**

- Make permanent estate tax with \$3.5 million exemption and 45 percent rate

### **Revenue Raisers and Tax Havens**

- Eliminate oil and gas loopholes
- Close loopholes in the corporate tax deductibility of CEO pay
- Tax carried interest as ordinary income
- Reallocate multinational tax deductions
- Impose a windfall profits tax on oil and gas companies
- Require publicly traded financial partnerships to pay corporate income tax
- Codify economic substance doctrine (requires transactions that qualify for tax benefits have economic justification beyond those benefits)
- Create an international tax haven watch list of countries that do not share information with the U.S. and require greater financial disclosure to decrease tax shelters

### **Obama's solutions for the Credit Crisis**

- Financial institution borrowing from the government should be subject to government oversight and supervision.
- Establish transparency requirements that demand full disclosure by financial institutions to shareholders and counterparties.
- Streamline regulatory agencies.
- Crack down on trading activity that crosses the line to market manipulation.
- Establish a process that identifies systemic risks to the financial system.

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- Have broader assurances for credit to banks.
- Provide additional, temporary assurances to achieve the effective functioning of financial markets. Depending on developing circumstances, these steps could include additional measures by the Federal Reserve, extending insurance to all deposits, or guaranteeing a broader range of liabilities of the banking system including overnight loans. Such steps should be coordinated internationally where appropriate and feasible. They should be accompanied by additional oversight to ensure appropriate use of guaranteed funds and by the expectation that financial institutions taking advantage of these guarantees will raise more capital.
- Extend asset purchases to unfreeze other critical sectors.
- Take immediate steps to support non-financial institutions including small businesses and states & municipalities.
- Address the credit crisis facing small businesses.

To address the massive credit crunch that is threatening America's small businesses, Barack Obama is proposing two immediate steps: (1) a nationwide emergency lending facility for small businesses that could be run through the SBA's Disaster Loan Program, which helped thousands of businesses in the wake of 9/11 and (2) temporarily eliminating fees on the SBA's 7(a) and 504 loan guarantee programs for small businesses, to help increase private lending for small businesses.

All in all, we can look forward to a challenging, yet exciting time ahead under the new Presidency of Barack Obama.

**Source:** KNAV Desk

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